

NEW ZEALAND VALUERS' JOURNAL MARCH 2000

Editorial	
Indigenous Property Rights	2
Obituary	
Bob Baker	3
A Hedonic Housing Model for Stigma Assessment: The Case of a remediated contaminated site in Perth WA	<i>Sandy Bond</i> 4
Fletcher Homes Decision A Commentary	<i>Graeme Horsley</i> 14
From the Archives: Fifty Years Ago	
The Evidence of Land Valuers	<i>Mr O C Mazengarb</i> 17
A Typical South Otago Fat Sheep Farm	<i>N M Peryman</i> 22
Valuing Land Subject To Native Title Claims	<i>John Sheehan</i> 25
Case Notes	
Ownership Of The Whanganui River	36
From the Courts	48
i) Houpoto Te Pua Forest and The Valuer General	
ii) Boat Park Limited and BHW Hutchinson and D C Findlay	
Professional Directory	



## NEW ZEALAND VALUERS' JOURNAL

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Articles and correspondence for the NEW ZEALAND VALUERS' JOURNAL may be submitted to the Editor at the following address:

The Editor, NZ Valuers' Journal  
10 Oakfield Street  
Christchurch, New Zealand

The mode of citation of this volume of the NEW ZEALAND VALUERS' JOURNAL is:  
(1998) N.Z.VJ. March 1999, Page.

ISSN 0113-0315

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# Indigenous Property Rights

If one is of Anglo-Saxon or Celt origin, and have a permanent (or relatively permanent) job, a salary, a house, and one or two wardrobes of clothes, and a modern car, one can quite easily become a little "blase" about other ethnic groups regard for land. But putting it into perspective, when you haven't any of the above trappings of security / success, but only a thirty second or sixty fourth, or less share of a block of land, you do have a share in something which is tangible land.

Only a person, who has experienced the situation of having nothing, can appreciate that position.

Articles, and a Court Case, in this Journal, bring out that point, so Valuers, who are normally pragmatists, bound by square metres and hectares, must think outside those "squares" and take note of the sensitivities and spiritual values of other ethnic groups, who because of a multitude of factors have a stronger tie to ancestral / communal lands.

Tribal ownership may not necessarily be restricted to land, but can take in rivers, and their environs.

At this point, in the case of the river, the scene becomes extremely convoluted (if not a little murky), in terms of Common Law, Case Law, The Treaty of Waitangi, Acts of the Crown, Planning Statutes, and last, but certainly not least, the whims of the Politicians of the moment.

It is interesting to reflect on the fact that "the buck stops on the Valuers desk", when the value of such tangible and intangible assets is required. He or she has to produce a considered opinion of the value of such assets, in dollar terms.

This Valuation then establishes a "benchmark", which provides an opportunity for sundry other experts to contest, in generally a succession of Courts.

However if the Valuer has taken into consideration, all the factors, tangible and otherwise, involved in the Valuation, and has fully explained the reasoning behind the result, with as much qualifying data as possible, he or she, should have no qualms about being asked to quantify the Value of those assets, tangible and otherwise, to an ethnic population.

## OBITUARY

# BOB BAKER

Robert Keith Baker, Registered Valuer, formerly of Baker Bros and more recently Ford Baker, died suddenly on Thursday 5<sup>th</sup> March 1998 after a brief illness.

He is survived by his wife Mary, and children Leyden and Sue, and grandchildren Peter, Solveig and Jonathon.

Bob Baker commenced a Law degree, working part time at Cavell & Leitch, but his degree was interrupted by his war service. He served as a commissioned officer in the 4th Field Regiment, RNZ Artillery, in the Middle East, and Italy, surviving Casino and a direct hit on his observation post. Following his return in 1945 he resumed a military career in the 3rd Field Regiment and eventually was promoted to command the regiment with the rank of Lieutenant-Colonel, receiving the Efficiency Decoration. He was appointed as Honorary ADC to the Governor General Sir Willowby Norrie.

When he returned from the war he joined the family firm of Baker Bros with his father and uncle and completed his law degree, but continued a career in real estate specializing as a valuer.

He was a board member of the Christchurch Building and Land Society Permanent as it mutated to The Christchurch Mutual Building Society, and then the New Zealand Permanent Building Society.

The fact that he had legal qualifications was a little unusual in his profession. He rose to be the youngest National President of the Real Estate Institute of New Zealand, and President of the Canterbury-Westland Branch of the Valuers' Institute. He was elected a Fellow of

both organizations and a Life Member of the Real Estate Institute, which was a body that he loyally supported, notwithstanding the fact that he was primarily a valuer. He was a founder member of the Multiple Listing Bureau.

He was rational and logical in his approach. He specialized in industrial and commercial valuations and was involved in many major valuation cases in the courts and various tribunals. He served in a quasi judicial capacity on various Appeal Boards.

Bob was a keen vocalist. He sang in the Royal Christchurch Musical Society for many years. When Bob Field-Dodgson retired, Bob Baker joined "Alan's Lads" a group that sang in retirement homes for the pleasure of others. He was a keen golfer at the Harewood Golf Club and committed to community service through the Junior Chamber of Commerce, and Lions. He was a member of the Officers' Club, the University Club, and the Canterbury Club and a keen snooker player.

Bob was an enthusiastic gardener. Not only at home, where the garden and golf ruled most weekends, but for others as well. He was on the Committee of the Old Stone House and helped keep the garden there. He couldn't golf on Mondays because that was the day he did the garden for friends who could no longer cope.

At his funeral he was described as a good example of "an officer and a gentleman" who displayed dedication, sincerity, an affable nature and generosity. He was meticulous in all he undertook. He will also be remembered by those who knew him as an inveterate pipe smoker.

*(This obituary is belated, but because of Bob Baker's input into the Institute, it was felt worthy of publication Ed.)*

## The case of a remediated contaminated site in Perth, WA.

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**Keywords:** Site contamination - remediation - stigma - property values hedonic model

**Abstract:** "Stigma"<sup>1</sup> associated with remediated contaminated land is the blighting effect on property value caused by perceived risk and uncertainty. Uncertainties relate to negative intangible factors such as: the inability to effect a total "cure"; risk of failure of the remediation method; risk of changes in legislation or remediation standards; difficulty in obtaining finance, or simply, a fear of the unknown. Post-remediation "stigma" is the residual loss in value after all costs of remediation, including insurance and monitoring have been allowed for. It equates to the difference in value between a remediated contaminated site and a comparable "clean" site with no history of contamination.

This paper summarizes the initial results from a study of the market sales data of post-remediated vacant residential land along the Swan River, in Perth WA, from 1992-1998. The aim of this ongoing research is to estimate the amount of "stigma" arising from a site's contamination history and measure the effect of this on residential property values of remediated property. The results show that while a site's contamination history impacts negatively on property prices, the price decreases are off-set by the positive influence on price from additional amenities provided in the case study neighbourhood.

### Introduction: Background to the Research Problem

It was the introduction of legislation within Australia (State enacted, for example, the Environmental Protection Act 1986, in Western Australia) and New Zealand (The Resource Management Act 1991) that brought contaminated land issues to the attention of valuers in Australasia. This legislation has highlighted the

need for valuers to take contamination issues into account in estimates of value. However, uncertainty exists as to the effect contamination will have on property values due mainly to a paucity of contaminated property sales data together with the lack of clarity within the legislation over legal liability for polluting.

Up until the early 1990's an *ad hoc* approach had been taken in Australasia toward the assessment and management of contaminated sites resulting in a range of standards being applied. This is slowly changing with the introduction of new legislation or amendments to existing legislation.

However, until this occurs, the position for lenders, equity investors and valuers remains unclear.

Coupled with these legislative uncertainties is, firstly, the difficulty in identifying if contamination exists on a site, and secondly, the specialized skills required to determine the extent of contamination and the costs of remedying it once it has been identified. Thirdly, identifying the presence, magnitude and duration of any post-remediation stigma is problematic mainly due to the absence, or limited availability, of market sales data. These are the problems that the valuers have had to face when valuing property known, or suspected, to be either currently or previously contaminated.

### Brief Literature Review

A growing body of literature has emerged in the US dealing with the valuation of contaminated land, more so than in the UK, New Zealand or Australia due partly to the much earlier introduction of legislation in that country. Much of the early literature dealing with the issues of contaminated land focused on the financing difficulties and associated impacts on the value of *commercial* property. Those that relate to valuation methodology again focus on

commercial property and what is "proper" valuation methodology. Others document the practices of valuers (e.g., Lizieri et al. (1995), Dixon (1995), Richards (1995), Syms (1994, 1995, and 1996), Kennedy (1997) and Richards (1997), Bond (1998), and Kinnard & Worzala (1998)).

The concept of environmental "stigma" while first emerging in the valuation literature in the late 1980's (see for example, Kinnard 1989, 1990; Mundy 1988, 1989, and Patchin 1991, 1992) has been difficult to quantify, with some valuers ignoring it all together. For example, only a few of the valuers surveyed by Dixon (1995), Richards (1995) and Kennedy (1997) use an adjustment for environmental stigma. However, their adjustments tend to be subjective (a yield or capital value adjustment). Syms (1996) criticizes such an approach and suggests an alternative methodology. He believes that understanding the risk perceptions of the property market actors is necessary to facilitate the construction of a valuation model for contaminated land that will enable stigma to be assessed.

Following Slovic's (1992) approach Syms (1997) uses the psychometric approach to compare the risk perceptions of members of the general public, valuation professionals and other professionals involved in the redevelopment process toward known and unknown risks. Using this information the scale of the required value adjustment to reflect environmental stigma is quantified. While Syms also utilizes other stigma-adjustment factors when quantifying stigma, he averages these. Given that each "value adjuster" relates to either the use of the site, the different stages of the redevelopment process, or the treatment method, the logic behind averaging such figures is questioned. Further, if the stigma-adjustment factors vary widely the accuracy of the

resulting averaged adjustment factor is questionable. For example, in a case study presented by Syms to demonstrate the model the range was from 2.5% to 90.38%.

Finally, it must be kept in mind that the results from opinion surveys do not reflect actual market behaviour. How people perceive something may not translate through to market behaviour. For example, a respondent may say they perceive a hazard as particularly risky yet still be prepared to purchase a site containing that hazard under certain circumstances. Yet, in the UK (as in NZ, see Bond (1998)) information limitations prevent the verification of opinion survey results and have hindered the use of more sophisticated methods for stigma assessment.

At least in the US, from a study by Kinnard & Worzala (1998), it appears that market sales data is becoming sufficiently numerous and available for direct market evidence to be utilized in estimating post-remediation "stigma". Nevertheless, most US authors still recommend increasing the capitalization rate or discount rate for the identification and measurement of post-remediation "stigma".

Until sales data is more readily available alternative methods for stigma assessment will continue to be suggested. For example, Weber (1998, 1996) utilizes Monte Carlo techniques to develop a probability estimate of post-remediation "stigma". Chalmers and Roehr (1993), in recognising the importance of knowing how perceptions towards contaminated land affect property value, including those arising from stigma, suggest the use of contingent valuation. This involves the use of formal surveys of knowledgeable market participants, and as such suffers similar weaknesses to the Syms approach.

The literature dealing specifically with

the measurement of the impact of environmental hazards on residential sale prices, including transmission lines, landfill sites and ground water contamination, span over twenty years and indicate the popularity of hedonic pricing models, as developed by Rosen (1974) and Freeman (1979). The more recent studies, including those by Dotzour (1997); Simons et al (1997); and Reichert (1997)), demonstrate that proximity to an environmental hazard reduces residential house prices by varying amounts depending on distance from the hazard. Only Dotzour found no significant impact of the discovery of contaminated groundwater on residential house prices. This was likely due to the non-hazardous nature of the contamination where the groundwater was not used for drinking purposes.

In each of these studies different functional forms were used to represent the relationship between price and various property characteristics. In hedonic housing models the linear and log-linear models are most popular. The linear model implies constant partial effects between house prices and housing characteristics, while the log-linear model allows for the nonlinear price effects. Reichert (1997) adopted a Cobb-Douglas exponential log-linear functional form, while Dotzour (1997) used a log-linear form. Simons et al (1997) used both a Box-Cox power transformation functional form to help correct for a lack of normality in the data distribution, and a linear form for interpretive purposes.

All three studies use a series of housing characteristics typical of hedonic housing models such as square footage of living space, age, land size, and categorical variables such as style, air conditioning, garage, proximity from the hazard site, and sale date (year or season in which the sale occurred). The Reichert (1997) model generated an adjusted R2 of

approximately 84%, an overall F-value of 67.2, and indicated that all the physical characteristics in the model were statistically significant and had the expected signs. Results indicate that values of homes within 6750 square feet of a landfill declined from between 5%, for the most distant properties, to 15% for those closest to the landfill. The Simons et al (1997) model generated an adjusted R2 of approximately 78%, and an overall F-value of 862. Their results indicate that values for residential properties within 300 feet of a registered leaking underground storage tank declined by 17%.

While the adjustment for and quantification of the effects of perceived risks from contamination by market participants is recognised as "the most challenging part of the valuation process," the study reported here attempts to achieve this. The study measured the impact of "stigma" on post-remediated residential sites using a hedonic housing model.

### Economic and Valuation Theory

To identify, quantify and value environmental impacts Dixon et al (1988) suggest first identifying and measuring the effects and second, placing monetary values on them so they can be formally analyzed. To do this they suggest the conceptual framework of neo-classical welfare economics. This framework can also be used for measuring "stigma" relating to environmental detriments.

The main assumptions of standard neo-classical welfare economics include:

1. Societal welfare is the sum of individual welfare,
2. Individual welfare can be measured (units of utility, as reflected in the market prices paid for goods and services),

3. Rational individuals maximise their welfare by selecting the combination of goods and services that yield the largest possible sum of total utility given their income constraints.

Further, using market prices to value environmental effects assumes that prices reflect economic scarcity. For this framework to be applicable these assumptions must be met.

However, as Dixon et al (1988) note: "Many aspects of the environment have no established market prices. Things like clean air, unobstructed views and pleasant surroundings are public goods; therefore direct prices for them are rarely available," p.50. When market prices can not be used directly to measure un-marketed public goods, it is possible to use them indirectly by means of the price paid for another good that is marketed. The value of a change in environmental amenity, for example, can be "deduced" by analysis of the differentials between prices of property in areas that differ in that environmental amenity.

Property (land) comprises a bundle of attributes, both positive and negative, including size, presence of various land amenities (for example, view, aspect, shape) and neighborhood factors such as the proximity to public transport, a park, or a toxic landfill. The assumption made when using property prices to value non-marketed environmental attributes is that purchasers of property will reveal their attitude to the bundle of attributes by their willingness to pay. In valuation theory property prices will only represent "market value" if the criteria outlined in the market value definition are met. The definition of market value generally accepted and adopted in Australasia is that outlined by the International Assets Valuation Standards Committee (Laing, 1992), as follows:

Market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion.

If the assumptions and the market value definition criteria are met then a drop in property prices due to an increase in an environmental detriment, say soil contamination, can be used to value that detriment (property attribute).

"Hedonic prices" are the technical name given to the value of individual property attributes. Hedonic prices are most commonly obtained by regressing sales prices on the bundle of physical measures of the attributes that are explicitly included in a regression model by way of control variables. Regression analysis allows the individual influence of any given property attribute to be identified by holding constant the influence of the remaining attributes. As this approach has been successfully employed for over the passed twenty years (as outlined above) it was adopted for the research reported here.

### Research Methodology

As in previous residential house price studies, the standard hedonic methodology developed by Rosen (1974) and Freeman (1979) was used to quantify the effect of a site's contamination history on the post-remediated values. Control variables used in the model to account for the property attributes were taken from other well-tested models reported in the literature and from valuation theory.

### Model Specification

The basic model used to analyze the impact on sale price of a post-



remediated site is as follows:

$$P_i = f(X_{1i}, X_{2i}, \dots, X_{ni})$$

Where:

$P_i$  = property price at the  $i$ th location

$X_{1i} - X_{ni}$  = individual characteristics of each sold property (e.g., lot size, view, sales date, post-remediated site, etc.)

The functional form of the property-value equation is most often assumed to be linear, as follows:

$$P_i = b_0 + b_1 X_{1i} + b_2 X_{2i} + b_3 X_{3i} + \dots + b_n X_{ni} + a_0 D_0 + \dots + a_m D_m + e_0$$

with  $b_1$  to  $b_n$ , and  $a_0$  to  $a_m$  as the model parameters to be estimated, i.e., the implicit unit prices for increments in the property characteristics ( $X_1$  to  $X_n$  - the continuous characteristics such as site size, and  $D_0$  to  $D_m$  - the categorical (dummy) variables such as river views). The parameters are estimated by regressing property sales on the property characteristics. The null hypothesis states that the affect of being located on a post-remediated site does not explain variation in property sales price.

### Collection of Data

Part of the selection process for finding an appropriate case study area was to find one where there were a sufficient number of property sales for analysis to provide statistically reliable and valid results. Rocky Bay Estate in Perth, WA met this criteria, with 78 sales recorded from 1992 - 1998. Further, as many of the sales occurred at auction, they represented true "market" prices, unaffected by a real estate agents price-setting criteria that can often confound the open-market price-setting mechanism.

Similarly, property sales in control areas, not affected by a contamination history were required. A further

criteria for selection was that the control areas should be located adjoining the Swan river, or close by it to avoid the need to allow for this separately. Four such areas were found and include:

- Mosman Park: 70 sales from 1996
- North Bank: 34 sales from 1995
- Richmond Racecourse: 117 sales from 1994
- Ascot Waters: 110 sales from 1996.

### Case Study Area Rocky Bay Estate

The case study area comprises some 8 hectares of prime riverfront land located in North Fremantle. Riverfront property is traditionally the most valuable in Perth. Since Federation much of it has been occupied by the Federal or State governments, which have intermittently released land for private residential development. In the case of the subject site, Land Corp was the developer.

In 1990-92, the former State Engineering Works<sup>2</sup> site was redeveloped as a high-class, single-family residential suburb, known as Rocky Bay Estate, containing approximately 110 fully serviced sites ranging in size from 249 to 880 m<sup>2</sup>. The subdivision also includes areas of public open space, in addition to a 9m wide strip of general open space comprising a cycle path and walkway between the site and the top of the cliff adjacent to the Swan River. Located above the river it obtains panoramic views over the river, to Preston Point and East Fremantle in the south. It is conveniently located within walking distance of Leighton Beach, easy commuting distance of both Fremantle and Mosman Park and within 15km of Perth's CBD.

### History of the Site<sup>3</sup>

The site was originally part of a

limestone hill that dropped steeply to the Swan River. In the late 1800's and early 1900's the Public Works Department quarried limestone from the site. In 1908, operations at the State Engineering Works (SEW) started that involved mostly the manufacture of harvesters and ploughs and later for metal fabrication. The SEW were finally closed down in 1987.

### Contamination

The bulky by-product pyrites cinders from the sulfuric acid production plant on the adjoining site were used for general filling of the SEW site. Further, a foundry operated as part of the SEW which during the earlier years had coal-fed fires. Foundry clinker consisting of general wastes from the foundry operation, and coal residues, were generally distributed over the site.

### Site Testing

Results from ground water testing indicated excessive levels of nitrate and salinity. Arsenic and cyanide were at the upper limits of safe standards for domestic supply.<sup>4</sup> Results from soil tests indicated that the site's waste materials had heavy metal values many times greater than established recommended concentrations in soils set by Australian authorities for various land uses. These wastes were found to be leaching into the sands beneath and resulted in the elevated levels of selected heavy metals found in the ground waters.

### Site Clean Up

Site clean up<sup>5</sup> was completed in November 1990. This involved relocating 47,000m<sup>3</sup> of visually contaminated materials (pyrites-clinkers, building rubble) off-site to the landfill in Henderson. The additional 15,000m<sup>3</sup> of contaminated sands beneath these wastes were relocated on-site to the base of the limestone hillock on the northwestern section of the site, well away from the

river. It is understood that the relocated sand will be covered with 5 meters of clean soil when the final stage of the development is completed'. The entire site was covered with 1.5 meters of clean fill.

**Control Area Descriptions**

**Mosman Park:**

This small sub-division of 114 sites ranging in size from approximately 350-750 m<sup>2</sup>, is located northeast of the Rocky Bay Estate's land and further away from the Swan River. McCabe Street forms the sites southern boundary, and separates the land from the controversial Minim Cove contaminated land development. Housing is in the medium to high price bracket for Perth.

**North Bank:**

The site occupies a prominent location on the north side of, and adjoining, the Swan River, between Stirling Highway bridge and Queen Victoria Bridge. These bridges act as key gateways to Fremantle. The site has a long history that started as a residential subdivision, was overtaken by commercial operations and has subsequently been returned to residential.

Prior to redevelopment commencing in 1995 a small portion of the site had to be cleaned due to minor contamination found, resulting from the wool scourers. The development comprises mostly high-density housing: duplex, apartment blocks, and townhouses, with a limited number of single family sites. The reserve foreshore comprises a walking path. Highway noise is obvious from both Stirling Highway and Queen Victoria Street, but is well located close to Fremantle.

**Richmond Racecourse:**

Richmond Racecourse, previously used as a trotting club, was redeveloped in 1993. The subdivision is designed around a park and located

a kilometer southeast of the Swan River, with limited ocean views. The homes are mostly moderately priced single story homes and two-story terrace housing.

**Ascot Waters:**

This site, comprising approximately 14 hectares is situated to the east of Perth city. It comprises land originally used as a clay-works, rubbish tip and a swamp. The rubbish tip has subsequently been cleaned-up to EPA standards and converted to an island nature reserve. The redevelopment involved substantial excavation and refilling works with much of the current site now comprising reclaimed land.

The subdivision is located in the City of Belmont, on an inverted "U" shape bend of the Swan River. As such, the site is bounded by the narrow bend of the river on three sides, and a major thoroughfare that leads to the bridge providing access across the river. It is in an area of predominantly industrial and commercial zoned land. Shopping facilities and other residential amenities are located at some distance from the development. However, substantial amenities have been developed and include a 16-hectare island reserve, a lagoon, boating marina and parks.

The dependent variable is the vacant land sale price sold between 1992 and 1998. The data set includes 409 property sales obtained from the Valuer General's Office (VGO), and Land Corp. The independent data set includes variables that correspond to property attributes known and suspected to influence price. All land sales were individually inspected to enable data collection on many of the independent variables.

The independent variables include: sale date (by year); river views; contamination history; adjoining a park; land area (m<sup>2</sup>); amenities provided; and location. Land quality is depicted by land area and zero-one dichotomous variables for the presence of a river view, a park, and additional amenities. The zero-one dichotomous variable, location, is a proxy for neighborhood quality and is based primarily upon the quality of the housing, accessibility to amenities including public transport, schools recreational facilities etc, within each location. The environmental indicator is the zero-one dichotomous variable for the presence of previous contamination on the site. The variable descriptions are listed in Table 1 below:

Table 1: Variable Descriptions

Variable:	Definition:	Units:
Sale price	Sale price of vacant land	\$
Sale date (SD1 to SD5) <sup>1</sup>	Year in which the sale occurred (1994 to 1998)	0/1
River	River views	0/1
Contamination	Contamination history	0/1
Park	Adjoining a park	0/1
Amenities	Additional amenities provided	0/1
Area	Land area	m
Locations 1 to 3	1 =Rocky Bay Estates, Mosman Park, & North Bank, 0/1 2=Richmond Racecourse, 3=Ascot Waters	

**Multiple regression analysis procedure**

**1. Data Specifics**

1 Sales price is the dependent variable.

The base year was 1992, the year the first of the Rocky Bay Estate sites were auctioned. Note that the other

location sales did not commence until 1994.

3 All sales in Rocky Bay Estate, North Bank and Ascot Waters are coded as "Amenities" as all are located next to the Swan River and have additional amenities compared to the other locations such as riverfront cycle and walking paths and childrens playgrounds.

*Note:* It is conceivable that the additional amenities were built to compensate for the negative influence usually associated with the contamination and industrial history of the area and the sites.

The base variables excluded from the data set to which each variable is compared, comprises sites that sold in 1992; have no river view; were not previously contaminated; and are situated in Location 1. Table 2, below, shows the descriptive statistics for the 409 sales. The average sale price was \$178,494, with an average land area of 420 m2.

Table 2: Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
AREA	183.00	748.00	420.4719	116.7765
PRICE	60000.00	560000.00	178494.2910	95682.5231
LOCATN2	.00	1.00	.2861	.4525
LOCATN3	.00	1.00	.2689	.4440
RIVER	.00	1.00	.1589	.3661
SD1	.00	1.00	.2225	.4164
SD2	.00	1.00	.1051	.3071
SD3	.00	1.00	.2592	.4387
SD4	.00	1.00	.2298	.4212
SD5	.00	1.00	.1491	.3567
Amenities	.00	1.00	.5428	.4988
Contamination	.00	1.00	.1907	.3933
PARK	.00	1.00	6.601E-02	.2486

## 2. Regression Analysis

Verification of an economic model involves determining the statistical significance of the model. This involves using a number of statistical

tests (indicated in brackets below) to determine the following:

- are the coefficients the right sign (as suggested by theory or experience),
- are the coefficients significant, i.e. significantly different from zero (t-test),
- does the model fit the data (coefficient of determination - R2);
- is the model statistically significant (F-test),
- are the assumptions underlying the model met (test for normality of the error term; errors have constant variance (homoskedastic); error has zero covariance (no auto correlation), etc.

The hedonic theory does not provide the researcher with any guidelines concerning which variables to include in the independent variable set.

Further, "while theory or background knowledge may suggest the existence of a statistical relationship, it provides no guidance as to the functional form: whether it is linear, logarithmic, quadratic, and so on". (Flaherty et al, 1999, p.374). Observation of market

data suggests, for example, that the relationship between price and land area is not a linear function. As land area increases price increases but at a decreasing rate. This belief was tested by transforming the variable "area" to reflect the correct relationship. The log-linear model allows for nonlinear price effects. According to Flaherty et al (1999), log-linear is popular due to its proportionate effect interpretation and it tends to remove skewness, a feature commonly observed with property data. Different variable and model transformations were tested to determine the best variable, and model, specification.

## 2. Model Selection

The following statistics were used to help select the most appropriate model: the adjusted coefficient of determination (adjusted R2); the standard error of the regression equation; t-test of significance of the coefficients and F-statistic.

## Analysis of Results

### 1. Significance of variables and the equation: The linear model

Regressions were run to determine the significance of the independent variables and the model. The following equation indicated the best results for the linear model, with approximately 78% of the variation in sale price explained by the variation in the independent variable set. The model has a standard error of the regression of \$44,978. The F statistic was 132. The variable "park" was not included in the model as this was shown to be insignificant at the 5% level. The resulting equation is:

$$\text{Price} = 44,344 + 298 (\text{Area}) + 69,272 (\text{Contamination}) + 125,410 (\text{Amenities}) + 53,916 (\text{Loc2}) + 162,183 (\text{Loc3}) + 99,785 (\text{River}) + 105,164 (\text{SD1}) + 66,108 (\text{SD2}) + 81,828 (\text{SD3}) + 88,365 (\text{SD4}) + 84,030 (\text{SD5})$$

All variable coefficients had the

expected signs. A site with a history of contamination has a negative influence on price, reducing price by \$69,272. Land area, additional amenities, river view and sale dates (when compared to the base year 1992) all had a positive influence on price. Both locations 2 and 3 are shown to be inferior to location 1.

The ratio of the standard error of the regression (SER) to the mean of sale price indicates the error ratio of the model. For example,  $\text{SER}/\text{Mean Price} = \$44,870 / \$178,494 = 0.25$ . This indicates that the model produces a 25% error. While this error ratio is lowest for this equation (the other models derived produced an error ratio of around 65%), this would still be considered too high by most valuers (and valuation courts) who accept a valuation range (error) of between 10-15% for valuations of the same property.

Multicollinearity appeared to pose a problem. Some high co-relations were found between the sale dates as would be expected. "Amenities" and "Contamination" are highly negatively correlated as would be expected (contaminated sites are a subset of sites with additional amenities). "Amenities" is also highly correlated with "Location3". This location is a subset of the sites with additional amenities and actually provides more amenities than the other locations a marina, island reserve etc.

## 2. Variable transformations

As predicted hedonic prices can vary significantly across different functional forms, only the various commonly used functional forms were examined to determine the relative estimation properties and to test the stability of the hedonic price on contamination history.

Also, to test the belief that the relationship between price and land area is not a linear function of price the variable "area" was transformed

to reflect the correct relationship. Several transformations were tested including: linear of price square root of area; linear of price log of area; log of price linear of area; log price - log area; and log price and square root of area. All other variables remained in their linear form in each model.

The model selected in this study utilizes a Cobb-Douglas exponential log-linear functional form, in which the regression coefficients on the continuous variables represent price elasticities, and the coefficients on the categorical variables indicate the percentage impact on price of that characteristic.

Tests for normality, heteroskedasticity, and multicollinearity generally indicate that the model is adequately specified and that the data are not severely ill conditioned (heteroskedasticity and multicollinearity was overcome when the data were transformed). This model is a significant improvement over the linear form. The model generated an adjusted R<sup>2</sup> of approximately 85%, and an overall F-value of 201. The standard error of the regression was 0.1731. All of the property characteristic variables in the model were statistically significant and their associated coefficients had the expected signs.

A set of partial regression results illustrating the impact on properties from a site with a history of contamination is presented in Appendix I and the resulting equation is shown here:

$$\begin{aligned} \text{Log of Price} = & 6.906 + 0.752 (\text{Log of area}) + 0.362 (\text{Contamination}) + 0.576 (\text{Amenities}) \\ & - 0.324 (\text{Loc2}) - 0.834 (\text{Loc3}) + 0.374 (\text{River}) + 0.650 (\text{SD1}) \\ & + 0.497 (\text{SD2}) + 0.544 (\text{SD3}) + 0.562 (\text{SD4}) \\ & + 0.681 (\text{SD5}) + 0.121 (\text{Park}) \end{aligned}$$

The three most significant variables in the equation are Location 3, the log

of land area and river view, with t-test statistics over 15. The regression coefficient on Location 3 is -0.834 which indicates that properties in that location sell for 83.4% less, on average, than those in Location 1. The regression coefficient on log of land area is 0.752, which indicates that, on average, a 10% increase in land area will generate a 7.52% increase in price. The coefficient on river view of 0.374 indicates that the presence of a river view adds 37.4% to the price of a property.

The regression coefficient on Amenities has a higher statistical significance than the variable Contamination and indicates that additional amenities add 57.6% to the sales price of a property. A site with a history of contamination, as mentioned above, reduces price by 36.2%. As these two variables are correlated it would appear that the negative impact of being located on a site with a history of contamination is compensated by being located in an area near the Swan River with additional amenities.

The regression coefficients on the yearly dummy variables measure the annual rate of price appreciation across the entire sample in relation to the base year, 1992. The coefficients show the rapid appreciation during 1992-1994 (properties in 1994 sold for 65% more than those in 1992), the slowdown from 1994-1997, and the rapid appreciation again in 1998.

## CONCLUSION

Briefly stated, the results of this study indicate that a site with a history of contamination has a negative impact on value. This "stigma" effect results in a 36% decrease in sales price. However, the study also indicates that this may be off-set by other factors such as location next to the Swan River, and additional amenities including walking and cycle paths, children's playgrounds and the like (as incorporated in the variable

Amenities). It is difficult to quantify how much each of these factors has distorted the "stigma" effect.

This study is of the stigma effect of being located on a post-remediated site from 1992 to 1998. It must be recognised, however, that these effects may vary over time. Public perceptions change due to the increased public awareness regarding the potential adverse health and environmental effects of land contamination. Changes in consumers' attitudes to new technology for site testing and remediation may also impact on land value. Thus the perceptions toward post-remediated sites can change either positively or negatively over time.

Lastly, it must be kept in mind that these results are the product of a single case study carried out in a specific area at a specific time and that great caution must be used in making generalisations from them or applying them to other areas. Similarly, it generally covers only the higher range of the social spectrum. Prior research indicates that social class is an important variable influencing peoples' response to environmental detriments and hence were the study to include neighbourhoods with residents of a different social scale the results may have also been different.

As Maler and Wyzga (1976) point out, because existing methods are often relatively crude to measure environmental impacts, there can be the need to compare the results of more than one method. Thus, the second stage of the research to be conducted will involve surveys of residents to identify their perceptions toward a site's contamination history and the attributes they consider important in their purchasing behavior. These surveys together with the results from the market sales study

reported here will be used to help develop a methodology to measure "stigma" arising from a site's contamination history that will aid the valuation profession in valuing post-remediated property.

1 As defined by Patchin (1991), Syms (1996), Reichert (1997) and others.

2 Much of the information about the site (outlined in this paper) was sourced from the Fremantle City Council public records; media/newspaper research (Battye library); Land Corp; Valuer General's Office, and the records of Dr. John Rodgers, spokesman of the Minim Cove Action Group.

*'Source: Land Corp (1989). Proposal to remediate and redevelop the State Engineering Site.*

a Source: Rockwater Pty Ltd. (1988).

*Report by A.J. Peck, Principal-hydrologist.*

5 The site clean up standards used were the New South Wales State Pollution Control Commission (NSW SPCC) standards for small children's playing fields. These were the strictest standards at the time that were directly applicable to the redevelopment of contaminated land for residential purposes (DEP, December 1996, *letter to Dr John Rodgers to address his concerns regarding the different clean up criteria used for the SEW site and the Minim Cove development*).

6 Source: Halpern, Glick Maunsell Pty Ltd. (1994, October). *Letter to Landcorp re commitments met.*

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Appendix I

VARIABLE	Coefficients	T-test*	P-value
constant	6.906	26.792	0.000
Log Area	0.752	17.967	0.000
Locatn2	-0.324	-9.376	0.000
Locatn3	-0.834	-22.657	0.000
River	0.374	15.063	0.000
SD1	0.650	14.753	0.000
SD2	0.497	11.263	0.000
SD3	0.544	11.261	0.000
SD4	0.562	11.827	0.000
SD5	0.681	13.950	0.000
Amenities	0.576	14.171	0.000
Contamination	-0.362	-8.835	0.000
Park	0.121	2.893	0.004
AIRR2	0.8550		
F-test	201		
Std error	0.1731		
AIC	-409.87		
SBC	-353.68		
Log Likelihood	218.93		

# Fletcher Homes Decision

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Ernst & Young  
Real Estate Group

The valuer's profession faces significant challenges following Justice McGechan's reserved decision in the recent Fletcher Homes court case. Fletcher home owners as plaintiffs alleged that the Fletcher Homes houses they purchased were over-priced and that this over-pricing was supported by valuations prepared by the co-defendants.

In terms of property valuation the key judgement reached by McGechan J. was clearly summarised in his conclusion:

"The valuations were sought and prepared principally on a 'new house' basis, meeting requirements of the lenders for whom they were designed. That was an acceptable methodology at the time, although as time passed a need was perceived for a re-sale cross-check. It was not negligent. It was not 'incorrect'. "(page 127)

Interestingly, this clear, logical and reasoned judgement, does not appear to conform with recent Valuers Registration Board (VRB) decisions on cases of a similar nature.

In Ernst & Young's opinion, this judgement cannot be ignored and raises some important questions about the valuation of residential property in New Zealand.

1. Is there a single appropriate methodology which should be followed in the valuation of residential property?
2. Is the definition of market value too generalised?
3. What is more important, the content of the report or the valuation conclusion?
4. What is the legal impact of the independent statement within a valuation report?

Taking each of these separately:

**Is there a single appropriate methodology which should be followed in the valuation of residential property?**

The residential property market is the most subjective of real estate markets to value. The attributes (or value drivers) of the property are harder to define and there is a lack of 'mathematical correctness' compared to, for example, office valuation. As a result, there is significantly greater scope for variation between valuations under normal market conditions, a situation which is exacerbated during periods of rapid market change or where market fundamentals have changed beyond typical expectations.

While everyone is entitled to their opinion as to the value of a property, a valuer's expert 'opinion' of value, which has been determined after following acceptable standards and methodologies can be accepted as a valid opinion and can, in the normal course of events be relied upon as such. However, standards and methodologies can and will change over time as new value drivers evolve and new forms of property are developed.

Importantly then, as residential valuation is not an exact science, the rules relating to it cannot be written indelibly in stone. This is not to say that certain underlying value presumptions cannot apply, merely that valuers cannot simply (and blindly) assume that the way in which a house was valued yesterday will necessarily apply today. This concept was ignored by many during the period of the Fletcher Homes litigation and was commented upon by McGechan J. - especially in respect of retrospective valuations, where it was noted on three separate occasions that:

*Editor's Note: This article is a follow-up of the decision of the Fletcher Case summarised in the November 1999 Journal.*



*"Hindsight is to be avoided."*

(Pages 69, 78 and 90)

Generally speaking, the integrity of a valuation will be compromised when there is:

- inadequate or incorrect base data relied on
- carelessness in completing the valuation
- lack of judgement and misunderstanding of the purpose of valuation
- incorrect valuation methodology, and
- misinterpretation of the base data and/or unconsidered influence or bias in completing the valuation.

However, if those factors are not present in the completion of the valuation, then a very wide latitude will be given to the valuer in the assessment of value. It is the valuer's opinion and the Courts will accept it as such.

Accordingly, in determining whether a valuation is appropriate, the focus should be on the way the valuation was completed rather than just the value determined. Although the actual value cannot be ignored, the valuation is simply the result of inputs and methodology. In other words, a critical distinction must be made between the aim of the exercise and the means of achieving that aim.

Valuation is a professional estimate of the sum at which a property is expected to sell at the date of valuation. A valuation is drafted in terms of expectations and will be subject to variation, depending upon how valuers interpret the factors contributing to a property's value.

There is a widespread belief that

valuations should fall within a 5-10% range of the mean, anything outside being excessive. These percentages appear to have been established in an arbitrary and unresearched way. Ernst & Young recently undertook a study on VRB hearings which pointed to the existence of a much wider range of opinions between valuers. McGechan J. concluded at page 63:

*"There is room for wide margins, even around 30%, without one valuation necessarily being wrong".*

**Is the definition of 'market value' too generalised?**

One of the key conundrums in the Fletcher Homes scenario was that although the defendant valuers were utilising 'new-sale' comparisons and the claimant/review valuers were utilising 're-sale' comparisons, both parties genuinely believed they were assessing the 'market value' (willing buyer-willing seller, etc) of the subject property.

Interestingly, despite resulting in significantly different assessments, both 'approaches' are allowable under the New Zealand Institute of Valuers definition of 'market value'. That is, in each case there was clear comparable sales evidence of arm's length transactions between prudent and willing buyers and prudent and willing sellers. Under this transaction-based definition, therefore, as long as the valuer can find a series of transactions between willing buyers and willing sellers, the number of potential markets and therefore 'market values' is infinite.

There are two possible ways to remove this conundrum. Firstly, retain the existing definition and adopt new versions of 'market value' for different transaction situations. This essentially legalistic approach is how McGechan J has dealt with the matter in his judgement - that is, there is a

market value for a new house and a separate market value for a second-hand house.

The second alternative is to clearly acknowledge that although many different types of transactions exist, they remain in only one market. This essentially economic view recognises market value as dependant upon all alternatives open to the potential purchaser of real estate. For example, someone considering buying a new house will think about all ownership alternatives including new houses, second-hand houses, renting etc. and decide based on the costs and benefits associated with each.

The first alternative is reasonably easy to implement. However, it does not remove the underlying problem. The second is more difficult and will require a rethink of how valuers actually define the concept of 'market value' - that is, the new definition will have to focus more on the market in which the transaction occurs rather than the transaction itself.

In the Fletcher Homes case, the plaintiffs had alleged that the market was the resale market; what had to be determined was the value of the property not only at the time of the initial sale and purchase transaction, but at some time in the future (variously put at three and six months.) Fletcher Homes' position (which was supported by Graeme Horsley) was that the market was for new, previously unoccupied homes at the time of the initial transaction only. There was considerable debate on whether the Fletcher Homes' transactions were part of a market and what weight could be placed on sales evidence of Fletcher Homes. The plaintiffs alleged they were "captive" sales because of the low deposit deals that were being offered and the lack of alternatives open to the purchaser. Accordingly, they were not transactions between willing buyers

and willing sellers and should be excluded from any analysis of the market evidence.

It was shown, and accepted by the Court, that Fletcher Homes sales were arm's length transactions between willing buyers and willing sellers that went through an appropriate transaction period and their prices were determined as being part of the housing pack. As such, they formed a valid part of the market for new, previously unoccupied homes. While the presence of subsidised mortgages or other inducements might require consideration alongside careful attention to sales by other vendors, it did not alter the fact that the Fletcher Homes sales were a valid part of the relevant market.

As a result, the most comparable sales evidence for valuing new and previously unoccupied homes is the sales evidence of other new previously unoccupied homes. To ignore these sales would indicate a lack of understanding of the market.

Although no one segment of the market can be viewed in isolation, it is clear then that a grasp of the actual sector of the market being valued is a key step in completing the valuation.

### What is more important, the content of the report or the valuation conclusion?

One of the lesser issues in the Fletcher Homes case, although still significant for valuers, was the format and content of the valuation reports being produced around the time of this case.

While in many cases the format was prescribed to valuers, the reports were somewhat inadequate in their ability to convey the full detail that we now understand is required.

The compulsory adoption of professional codes of practice in recent years has clearly established a far more rigorous reporting

methodology. However, it is apparent that there remains uncertainty as to what we, as valuers, are actually trying to achieve in our reports.

The writer of valuation reports must understand that there will be people relying on the valuation and therefore the reader must understand what the valuation is saying to them. The report should contain clear statements as to what the valuer has considered in completing the valuation and how the valuation was completed. The valuation should also make it clear who may rely on the report and under what basis. Obviously, a balance is required between providing enough information so that a decision can be made and the need to present it in a precise fashion.

### What is the legal impact of the independent statement within a valuation report?

In most valuation situations, the valuer is required to declare their independence from the party requesting the valuation. Such statements as "we certify that we have acted independently of any owners of this property" and "I further certify that I have acted independently of any vendor or owner of this property" are two statements used by valuers indicate their independence.

McGechan J. has observed an interesting viewpoint on the independence of valuers in completing valuation reports. Specifically, he observed that as Fletcher Homes was the valuer's client, requesting the valuation, paying for it and relying on it made the independence certificates technically wrong when the valuers certified that they had acted independently. While this did not appear to adversely affect the plaintiffs, it does cast doubt on the valuer's ability to complete a valuation if instructed and

remunerated for it by the owner of the property rather than a third party. This third party requirement could make the ability to accept instructions directly from a home owner difficult, if a certificate of independence is required.

### Conclusions

The main conclusions from the Fletcher Homes court case are:

Market definition is the first key step in valuation.

- Provided the valuation has been completed in accordance with accepted valuation methodology and with the due care and skill expected of an average valuer it can be relied upon as being a reasonable opinion of value.
- If this requirement has been met there will be no legal liability even if the valuation is subsequently shown by events to be 'incorrect' in its assessment of value.
- Particularly with residential valuations, there is a recognition that perfectly competent valuers can quite properly hold divergent views on the value of the property.

The valuation report needs to be presented in a manner that conveys enough information for someone to rely upon the conclusions.

## From the Archives Fifty Years Ago

# The Evidence of Land Valuers

Mr O.C. Mazengarb, M.A., LL.M.

*This article appeared in "The New Zealand Valuer", March 1950 and was an address delivered to the Wellington Branch of the New Zealand Institute of Valuers. Its content should be of great interest to members of our Institute, as the principles are still the same!*

There are a few preliminary observations which it is desirable to make.

From the fact that the subject of this address has been selected for me, I must conclude that some at least of your Committee think me competent to speak upon it. Yet only twice, several years ago, and then only on small matters, have I myself been a witness. It happens that on both occasions I was on the losing side. But even from these minor appearances, there were derived some useful lessons, the benefit of which I have since passed on to others.

It is also fair for me to admit that I have had only a comparatively limited experience in cases affecting the valuation of land. Yet the method of preparing to give evidence in that type does not differ from that which is applicable in other civil cases. If therefore there are any rules which can be laid down any aids or tips for land valuers, they are the same as those which obtain in the case of doctors, scientists, engineers, and other "professional men". Despite the decision of the Supreme Court in *In re Laing* (9 G.L.R. 411) and *Gillies v. Mayor of Auckland* (1916 G.L.R. 149), the recent tendency is to regard land valuers as expert professional men and to treat them accordingly.

The expert witness has certain advantages over witnesses as to fact. He is usually permitted to remain in Court during the progress of the case, the rules which forbid leading questions to a witness are relaxed, and his services are remunerated at a higher rate. But when you hear the gibe "Liars, damned liars and expert witnesses" members of this Institute might possibly prefer to be relegated to the subordinate status that Mr Justice Williams and Mr Justice Cooper assigned to them in the cases just cited.

Now, Julius Caesar found it

convenient to divide Gaul into three parts. Following so good an example, I have divided the field you have asked me to survey into the following three parts:

1. Preparation of yourself to become a convincing witness.
2. Preparation for Evidence in a particular case.
3. Demeanour in the witness box.

### 1. General Preparation

(i) It is almost axiomatic that before you can become an appraiser you must have some knowledge of the principles of land valuation. That knowledge is obtained by a study of the theories of valuing fortified by practical experience. The theories are set out in various books. It is desirable that you should read these, so that you may be acquainted with the different methods by which value is determined, the criticism of some of the suggested methods and the fallacies underlying any of them. Theoretical knowledge, however, does not count for much without practical experience in arranging sales or leases of land. The best evidence of the value of an estate, therefore, is that which comes out of an accumulated store of experience and is in harmony with the theoretical views of the various text book writers.

(ii) The next most important thing is to have a reasonable good command of language and an ability to arrange your ideas in logical order. In these enlightened days, there are few business people who have not the necessary ability to express themselves clearly if only they will put down into writing what they do know. One of the most valuable lessons in life which I had was from a teacher of mathematics who hammered into us these words: "Put down the sum and you've got the answer". Instead of just pondering over the matter and then having a "shot" at a valuation by stating the price at which he thinks a

property could be sold, a valuer should set down his figures under various headings and do the necessary multiplication, addition, subtraction or division to arrive at the answer to the question which is submitted to him.

(iii) But your knowledge of the subject, even though clearly expressed, will fail to convince the Court unless it is tendered with sincerity. Witnesses fail to impress if for any reason they are thought to be insincere.

For many years I have been urging young men who take part in debating contests, to refuse to speak on any subject against their own convictions. By so doing, they develop a facility for insincere expression, which can be detected by the trained observer. It is a great pity that the reputation of some expert witnesses is such that the Courts get to know them and to look for a reason why their evidence should be disregarded. Any land valuer who makes a business of reporting upon and giving evidence about disputed values must face up to this situation. He must either be a high value or a low value man, or be on one side one month and another side the next month. If he is consistently high or consistently low in his valuations he will, in the course of time, be regarded as having a "complex" one way or the other - and his testimony may not carry much weight. There is only one safe course to follow, and that is to express an honest opinion on every case in which you are called. You may please the claimant or the respondent for the time being by placing a high or a low value on the property in question. But your chief aim should be to satisfy the Court, and to establish a reputation as a reliable witness.

## 2. Preparation for a Particular Case

(i) When asked to make a valuation which may be used in evidence, the first thing to do is to enquire the

purpose for which the valuation is required. If a claim is being made for compensation for land compulsorily taken by the Government or by some local body, your task is very different from what it would be if it is desired that you should give evidence on behalf of a mortgagor or mortgagee in a claim before an Adjustment Commission or Court of Review. The enquiry again is different if you are required to give evidence before an Assessment Court, or to make a valuation pursuant to an Arbitration clause in a lease.

The budgetary basis used in applications by mortgagors for relief from their financial obligations does not necessarily apply in compensation claims. The capitalisation of the net returns is a very unsafe procedure because the margin of error is very great and because, to a large extent, you may be capitalising the skill of the owner. This method has been roundly condemned in Australia, where it has been said that you might just as well try to arrive at the value of steel by capitalising the net profits obtainable from the sale of chisels.

It is therefore essential that you should begin correctly by studying the provisions of the appropriate Statute or agreement under which the enquiry is to proceed. If the solicitor acting does not inform you of it, ask for it. If you are not clear as the meaning of the Statute or the terms of any agreement, discuss it with your client or his solicitor so that your report or your evidence may be within the terms of the enquiry or reference. You would look very foolish in Court if it appeared that your valuation was prepared on a wrong basis through your being unaware of the terms of the relevant Statute or agreement.

In claims for compulsory acquisition of land you must have regard to-

(a) The value of the land taken on the date of taking;

(b) the damage caused to any remaining land of the claimant by reason of the severance of the land acquired;

(c) any damage to or increase in the value of the remaining land of the claimant, caused by the execution of works or the carrying on or use of the works erected on the land taken;

(d) the special suitability or adaptability of the land for any purpose other than that for which it was formerly used by the proprietor, but not if that suitability or adaptability is a purpose to which it could be applied only in pursuance of Statutory powers or for which there is no market other than the special needs or requirements of a Government department or any local or public authority.

Sec. 28 of the Finance Act 1936 does not appear to have made any substantial alteration to the existing law on these points, but it is convenient here to quote that section in full as follows:

"In determining the amount of compensation to be awarded on a claim for the hearing of which a Compensation Court is hereafter constituted under Part III of the Public Works Act 1928 or on an application hereafter made to the Native Land Court under section one hundred and four of that Act, the Court shall act in accordance with the following rules:

"(a) The value of land shall, subject as hereinafter provided, be taken to be the amount which the land if sold in the open market by a willing seller might be expected to realise: PROVIDED that the provisions of this paragraph shall not affect the assessment of compensation for disturbance of any other matter not directly based on the value of land.

"(b) The special suitability or adaptability of the land for any

purpose shall not be taken into account if that purpose is a purpose to which it could be applied only in pursuance of statutory powers, or for which there is no market apart from the special needs of a particular purchase or the requirements of any Government Department or any local or public authority.

"(c)Where the value of the land taken for any public work is increased or reduced by the work or by the prospect of the execution of the work, the amount of that increase or reduction shall not be taken into account.

"(d) The Court shall take into account by way of deduction from the total amount of compensation that would otherwise be awarded on any claim in respect of a public work (whether for land taken or injuriously affected or otherwise) any increase caused or likely to be caused by the work or by the prospect of the execution of the work in the value of any land of the claimant that is injuriously affected by the work, or in the value of any other land in which the claimant has an interest."

To arrive at the value of land on the date of acquisition you have to suppose that it was sold, not by means of a forced sale, but by voluntary bargaining between the claimant and a purchaser willing to deal, but neither of them so anxious to do so that he would overlook any ordinary business consideration. The test question was put by Sir Samuel Griffith, C. J. in *Spencer v. The Commonwealth of Australia* (5 Com. L.R. 418 at p.432) as follows:

"What would a man desiring to buy the land have had to pay for it on that day to a vendor willing to sell it for a fair price, but not desirous to sell?"

You must put yourself as far as possible in the position of persons conversant with the subject at the

relevant time and from that point of view ascertain what a purchaser would have had to offer for the land to induce a willing seller to sell it.

The test was also admirably put by the New Zealand Court of Appeal in *Russell v. Minister of Lands* (1898), XVII. N.Z.L.R. at p.253 -

"The Court must take into consideration all the circumstances, and see what sum of money will place the dispossessed man in a position as nearly similar as possible to what he was in before."

You exclude sentimental losses and exclude the fact that neither he nor any buyer, other than the Government or a local body, could use the land for the purposes for which it is taken. For a good explanation of the law regarding the "Special adaptability" of land taken by a public body, see *The Countess of Assalinsky v. Manchester Corporation*, reported only in *Browne & Allan's law of Compensation* 2nd Edn. p. 659. On the other hand, you include such things as interest and the expense and loss which arises from delay in reinvesting the money. And then you consider what effect the taking of the land has had on other land of the claimant - whether it has been improved or reduced in value.

If the claim relates not to the value of the freehold, but the ground rental which should be paid by a lessor, different considerations apply. In determining such rental the valuers must proceed on the basis that there are no buildings on the land and endeavour to ascertain what a prudent lessee would give for the ground rental for the term and on the conditions stated in the lease. (See *D.I.C. v. Mayor of Wellington* 1912, G.L.R. 598 and *In re a Lease-Wellington City Corporation to Wilson* 1936 N.Z.L.R. s. 110.)

(ii) Next study every single fact which may have a bearing upon the matter. Ascertain all sales of similar land; enquire into offers which have been made and rejected; insist on obtaining all details of income and expenditure affecting the property and its history in the hands of preceding owners. Some sale, or some item, may appear to you to be unimportant or irrelevant. But do consider it and show that you have considered it. Your evidence will be criticised, and perhaps discredited, if you are obliged to admit at the hearing that some matter had not been brought to your notice. If there is evidence of a sale in the locality which is against you, don't ignore it, but be prepared with reasons why the price of that land varies from the figure you place upon the land you are asked to value. You may be able by enquiry to find that a sale of similar land was at an under-value because that vendor was forced to sell by reason of failing health or financial obligations or that it was arranged in a time of depression or of boom. The market price of similar or neighbouring lands is one test, but it is not a conclusive test of real value. Nor is the actual cost of improvements more than a guide to their present value.

(iii) When you make your inspection of the locus in quo, have a notebook with you. Don't trust to your memory, but note down what you observe during the inspection the position of the land, its physical characteristics, the state of any existing buildings, and so on. There will probably be small features which you observe at the time, but which fade out of your memory. They may perhaps be disregarded in making up your report, but remember that you have to submit to cross-examination you are unable to recollect these details, some doubt may be cast upon your reliability.

(iv) When preparing the statement of your intended evidence, don't prepare it merely with a sheet of paper in front

of you. Visualise the tribunal. See yourself in the witness box speaking to the Judge and the Assessors, and being examined or cross-examined. Close your eyes. Speak to them, and then write down, or let the stenographer take down, what you intend to say to them.

(v) When the claim has been set down for hearing, seek an interview with the Counsel who will be leading your evidence, so that there may be no misunderstandings between you. It may be that he has misinterpreted something you have said in your report. It is much better to clear up all misunderstandings before you enter the witness box. In the discussion with Counsel you may find that another valuer has placed different values on some of the items. These discrepancies may be possibly harmonised. But on a reconsideration or on fresh information, one of you may feel justified in altering the figures. It may be said that this is the lawyer's job. But you also have your reputation to protect, and you must guard against the shattering of that reputation by doing your part to secure complete harmony between yourself, the other witnesses who are to support you, and the lawyer who has the general oversight of the whole case.

### 3. Demeanour in the Witness Box

I once somewhat shocked a Supreme Court judge by expressing the view which I have frequently stated to Junior Counsel - that cases are not won by evidence. They are won on impressions. The actual oral evidence is only one factor in creating an impression. In my opinion, too little attention is paid to deportment, dress, and the general demeanour of witnesses. Some people profess to be able to tell by the manner of a witness whether he has something to hide. For instance, changing from one foot to the other or wriggling the hands, is said to indicate a "shifty" character.

Then again, a conceited or "cocksure" attitude is as much to be avoided as a halting or faltering one. In quietness and in confidence with be your strength. You should have no occasion to be nervous. If you know your subject, if you have studied all the relevant facts, if you have prepared your evidence with the Court in your mind's eye, and are sincere in what you say, you should be just as comfortable answering questions in the witness box as you were in the lawyer's office. If you have been in Court during the progress of the case, as you are entitled to be, you will have imbibed the "atmosphere" of the Court and be quite comfortable when your turn comes to be examined and cross-examined.

Your function is to answer questions and not to make a speech. When a question is put by the Counsel who has called you, it is designed to elicit the information which appears in your report. It is for this reason that you should seek to understand Counsel and his ways and be able to follow the workings of his mind while he is examining you. He may be entitled to put leading questions, but the weight of your answers will be reduced if he has to put the very words into your mouth.

The whole procedure of examination and cross-examination is simple enough and should not worry you if you understand the facts of the case. But there are tricks in every trade, and there are some things which you must avoid. Perhaps I can impress them upon you by concluding with a few "Don't".

1. Don't discuss your intended evidence with outsiders, and don't try to convince the witnesses for the opposing side that they are wrong. If they are wrong in their estimates of value or the basis upon which they have proceeded, the decision of the tribunal will be more convincing than

anything you can say to them in private discussion; and it is more than likely that your viewpoint will be conveyed by them to the opposing Counsel to assist him in his cross-examination of you.

2. Don't make a display of any books or papers which support you. Express your opinions confidently. When they are challenged in cross-examination, produce the book or the document which backs you up. If you display them beforehand or when you enter the witness box, the chances are that the shrewd lawyer on the other side will see what you have with you and not give you the opportunity, which you desire, to produce them.

3. Don't speak too quickly. Remember that what you are saying is being taken down. Watch the typewriter and the Members of the tribunal who are taking notes. The more loudly you speak, the more time you leave for your views to impress themselves on the mind of the Court.

4. Don't overemphasise. Make your points distinctly and impressively. It is not your function to emphasise or stress the importance of various facts. If there is a cogency attaching to something you say, that should be apparent to the Court; but if special emphasis has to be placed on some aspect of your evidence, it is the duty of Counsel to do so in his address.

5. Don't exaggerate. If something is worth £1000 don't put a value of £1200 on it by way of allowing a safe margin. A land salesman resorts to these arts to bring about a sale, but a land valuer is giving evidence on oath. Ethics apart, nothing is gained by building up your figures or scaling them down just to please the man who employs you.

6. Don't overlook the "come-back". It may be that on some previous occasion you have written a

letter or made a report which may be turned against you now. If so, explain the position fully to Counsel so that if it is likely to be used against you in cross-examination, he may be able to anticipate it when leading your evidence, or to put matters right in his re-examination of you.

**7. Don't fence with Counsel.**

Whatever the question may be, answer it even if the answer may appear detrimental to your side. Having answered it, then make what qualification or explanation you can to diminish the adverse effect of your answer. At the worst, the admission that you may be obliged to make may weaken the value of your testimony on that point, whereas a reluctance to answer the question, or an unresponsive statement, may damage the whole of your testimony. If cross-examining Counsel tries to prevent you from making a qualification or explanation of your answer, turn quietly to the Judge and ask his permission to do so.

**8. Don't hit back at Counsel.**

Remember that the Court is not there to determine whether you are better at repartee than the Counsel who is cross-examining.

**9. Don't say or do anything which**

may cause the tribunal to regard you as a partisan. It is not altogether what you say, but the way you say it, that impresses the tribunal. Remember also that you are in view of the Court during the whole period of your presence there, and if you are observed nudging the other witnesses or scribbling notes and passing them along to Counsel, the Court will probably regard you as a devoted adherent or a busybody and pay scant attention to what you say or have said in the witness box.

# A TYPICAL SOUTH OTAGO FAT SHEEP FARM

N.M. Peryman, Dip. V.F.M.,  
A.N.Z.I.V.

*(An Analysis and Average of 71  
properties in the District acquired  
by Servicemen.)*

*Editor's Note: Many farmers consider that land should be bought or sold at a figure based on its production i.e. a "Productive Value". Many middle-aged valuers will remember producing Productive Valuations as part of their training. As at present, the selection of the interest rate or capitalisation rate is critical to the result. Productive valuations were used to establish the purchase price for farms bought by servicemen returning from WWII. Prices were fixed at 1942-43 values.*

Page 22

## The District

Topography and Situation: Area comprises a large stretch of undulating country lying between the Blue Mountains, the Waitahuna Heights, and the Warepa Hills with Molyneux River flowing through the centre of the area. Balclutha, 50 miles south of Dunedin, being chief centre, with Clinton 22 miles, Waipahi 32 miles, Tapanui 44 miles, Heriot 51 miles to the West; Clydevale 20 miles, Lawrence 35 miles to the north; and Milton 15 miles to the north-east of that centre.

Climate Average Rainfall approx. 30in. per year: Balclutha 26in. average with a monthly distribution over a 10-year period of January 2.34in., February 2.10in., March 2.25in., April 2.24in., May 2.04in., June 2.07in., July 1.86in., August 1.81in., September 1.90in., October 2.35in., November 2.44in. and December 2.55in.

Clinton 40in., Tapanui 40in., Lawrence 30in., Milton 30in.

Usually one or two light falls of snow a year, but on the lower altitudes these lie only a few days, but on the heights of the Blue Mountains snow in June and July often lies until October.

Original Cover: Mainly Red Tussock with rushes and flax in swampy area. Undeveloped areas now dominantly Brown Top and patches of small rushes.

Soil: A silt loam with a fair percentage of clay on a clay subsoil with ironstone nodules characteristic of impeded drainage. On the whole the natural fertility level is low and deficient in lime and phosphates.

Winters: Approximately a 90-110 day dormant period. Very little spring growth in pastures until October, but normally favoured with a good autumn growth.

## General Features

Average Size of Property: 535 acres.

Distance from amenities: Five miles from rail, 15 miles from Freezing Works, 15 miles from nearest business centre, 70 miles from Main Town, 50 miles from Lime Works.

Formation of Country: Easy rolling to undulating. Approximately 80% arable with a wheeled tractor. Balance gullies and swampy areas.

Reversion Factor: Natural tendency to revert to Brown Top. Ryegrass Clover dominant pasture; tend to run out when 10-12 years of age unless heavily limed and top-dressed. Without liming or top-dressing revert in 3-4 years.

Water Supply: Rain water tanks utilised for domestic supply. Springs and creeks in gullies provide and adequate supply of water for stock.

Electric Power: Not more than approximately 50% have electric power installed. Reticulation of power is, however, now being extended.

Telephone: Almost every farmer is connected with the telephone.

## Aspects of Farm Management

Stock Carried: 800 Romney Cross (2, 4, 6 and 8 tooth) Breeding Ewes, 270 Ewe Hoggets, 14 Romney Rams, 4 Southdown Rams, plus usual Killers, House Cows and a Horse. An average farmer rears his own replacements and normally has a few cull 2-tooth Ewes to sell each year.

Wool: Average overall weight of clip of 9 z pounds.

Shearing normally carried out in December, although shearing before lambing is growing in popularity. Lambs are not normally shorn.



Lambing: Average 100% tailed on Ewes put to Ram with September the lambing month.

Death Rate: 5% in Ewes and Hoggets.

3% in lambs from tailing to end of season.

Fat Lambs: Approximately 10% sold fat off mothers. Balance fattened on Rape, Rape and Grass, Turnip Tops and Kale. Average weight, 35 lbs. (Finegand works 10-year averag ae.)

Cast Ewes: Surplus sheep are sold as 5 and 6-year-olds, 20% going to Freezer. Balance sold in yards as annual draft ewes and purchased by dairy farmers on the heavier land for fat lamb production.

**Cropping and Cultivation**

Programme: Total of approximately 90 acres for each season, i.e., 30 ac. swedes (ridged), 30 ac. garton oats, 10 ac. rape (ridged), 10 ac. turnips (ridged), 30 ac. sown down with rape.

Lime applied: 60 tons annually, i.e., 30 tons with roots and 30 tons on new grass. In the past normally sown by the farmer, but with the advent of bulk distribution of lime, it is now being sown by contractors.

Manure applied: 4 tons as top-dressing and 9 tons with crops.

Labour required: Casual labour employed for approximately three months in the Spring Shearing is carried out by contract. Dipping and harvesting worked in with neighbouring farmers.

**Farm Implements, etc.:**

Tractor, 28-32 h.p., on rubber tyres and steel grippers.

Double-furrow Plough, Tandem Discs, Tyne Harows, Roller, Trailer, Ridger, Scuffler, a share Binder, z share Drill, shearing plant, wool press, separator, top-dresser, 8 coils cyclone netting, 2 netting, tools, harness and sundries.

Tractor Fuel: Normally kerosene and petrol and requires an average of 10 gallons fuel per acre under cultivation and 1 gallon oil to every 4 z ac. under cultivation.

**Value**

Buildings (1942/43 Valuation Basis):

Dwelling .....	£833
Whare.....	53
Wool Shed .....	200
Manure and Implement Shed	120
Garage .....	33
Cow Byre .....	27

Total ..... £ 1266

Dip .....	£33
Sheep Yards .....	£60

Fencing: Mainly 7-wire and wooden posts, and on the average in very fair repair. Total length, 640 chains or approximately 1.18 ch. per acre., at an average valuation of 15/- per chain.

**Unimproved Value:**

Total .....	£2,384
Per Acre .....	£4/8/0
Per Ewe Equivalent (935 E.)	£2/10/6

**Capital Value of Property:**

Total.....	£5,350
Per Acre .....	£10
Per Ewe Equivalent (935 E.)	£5/15/0

Stock and Plant (1942/43 cost basis):

Sheep: 216 2-tooth Ewes @40/-	£432
205 4-tooth Ewes @37/-	379
194 6-tooth Ewes @34/-	330
185 8-tooth Ewes @28/6	264
800	
270 E.H. @ 26/-.....	£351
20 Killers @ 20/-.....	20
18 Rams @ £4.....	90
2 Dairy Cows @ £101'.....	21
1 Hack.....	13
Total.....	£1900

Tractor.....	£400
Implements and Plant.....	500
	£900

Total Stock and Plant ..... £2,800

Total Cost as a Going Concern ... £8,150

**Productive Valuation (1942/43 Season's Cost and Prices):**

Income:	
Wool 1066 Sheep @ 9 1 lbs.	-
10,127 lbs. @ 13 d per lb.....	£559
Skins-20 @ 6/5; 300 @ 3/-.....	13
Fat Lambs-486 @ 24/5 .....	593
Cast Ewes-	
1415 yr. Ewes @ 21/6.....	
33 Freezing Ewes @ 13/- ..	175
Cull 2-tooth Ewes--40 @ 35/6 ...	71
Surplus Oats as chaff or grain.....	79
	£1490

**Expenditure:**

Management.....	£291
Wages.....	79
	370
Stock Purchase 5 rams @	
7 gns .....	£37
Deprec. horse .....	1
	38
Manure: 4 tons topdressing,	
9 tons crops .....	£67
Lime: 60 tons .....	38
	105
Seeds .....	92
Tractor Fuel and Oil.....	75
Chaff-cutting, Threshing and Twine	15
Cartage and Railage .....	56
Shearing, Dipping and Crutching	53
General Farm Stores .....	23

Insurance-		
Fire .....	£5	
Accident.....	£1	
		6
Telephone, £5; Mail, £1; Book-		
keeping .....	£3	9
Repairs and Maintenance:		
Buildings.....	£25	
Implements and Plant .....	25	
Tractor .....	19	
Fencing .....	27	
Yards and Dip.....	2	
		98
Depreciation:		
Buildings .....	£25	
Implements and Plant.....	30	
Tractor .....	48	
Yards and Dip.....	3	
		106
Travelling Expenses .....		15
Rates.....		27
Land Tax .....		3
Interest on Stock and Plant.....		140
Wool Charge and Commission.		18
		£1249
Surplus .....	£241	
Capitalised at 4 z % .....	£5350	

NB: If the price of wool was 1d/lb higher @ 141% d/lb the value of the property increased by £938 = +17.53%.

### General

South Otago Farm Lands have a great potential as sheep producing country, lime being the greatest single factor in development. Only a small proportion of the whole area is well farmed and it is only in more recent years has any real attempt been made to develop the area on progressive lines. In 10-15 years, with improved drainage, adequate liming, and a judicious use of artificial fertilisers, together with intelligent farm management, the productivity could be increased 50%. Lack of electric power and poor transport facilities in the past have hampered the development a good deal, but as this is being now gradually rectified, it will in future years rival Southland.

# Valuing Land Subject To Native Title Claims

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The following article is an edited and enlarged version of a paper presented to the *Native Title Workshop* organised by the Riverina Valuers Study Group, Australian Property Institute, at Narrandera, 20 August 1999.

The article is a result of continuing research being undertaken by the writer who is the API Native Title Spokesman and Member, Land Tribunal (Queensland).

## INTRODUCTION

The decision in *Mabo and ors. -v- the State of Queensland* (1992 175 CLR 1 (*Mabo*)) belatedly mirrored the position of indigenous property rights in other common law countries, such as Canada. For example, the *Mabo* decision came some 121 years after the recognition in British Columbia of such indigenous rights, and according to Bartlett (1997, p4) raising now familiar questions as to the validity of Crown Grants.

Subsequent to the *Mabo* decision, in *Wik Peoples -v- State of Queensland* ((1996) 141ALR 129) (*Wik*) the dyschronous (separate in time) nature of native title was confirmed and resulted in a broad public debate over the perceived dysfunctional nature of coexisting multiple property rights.

In addition, the decision in *Wik* highlighted the pressing need for the development of field techniques and methodologies for the valuation of land where there may be (or thought to be) coexisting indigenous property rights and interests arising from the recognition of native title.

This task has been made immensely more difficult as there is almost no judicial guidance in this area of land law and valuation practice. However, given the profound consequences for the stability of the property market, the API has been a significant contributor to the debate over the recent amendments to the *Native Title Act, 1993*, and has identified

significant areas of concern (notably compensation) which remain unresolved.

Of critical importance is the need to develop a methodology to deal with these newly emerging property rights, and to this end, the Institute is considering an Exposure Draft of a guidance note to be entitled "*GN 27 Native Title: The valuation or management of land subject to*". This document is currently circulating amongst the Divisions of the API before public release. There is however an urgent need to ensure that valuers, especially those working in rural or regional areas, are provided with details of the current body of knowledge covering native title and its relationship with existing anglo-Australian property rights.

In addition, it is crucial that valuers are aware of the directions in which judicial decisions are slowly leading the profession in this developing area of land law. Furthermore, when dealing with property rights which are (or may be) subject to native title, it is now important that clients and employers are assisted in preparing instructions to valuers, which do not contravene the *Racial Discrimination Act 1975*.

In this paper, it is proposed to first describe the existing principles identified in case law dealing with the areas of valuation, and secondly, it is proposed to examine the prospects for methodologies to permit the effective assessment of the phenomena which results when native title coexists on land and the resultant value affect.

## EXISTING CASE LAW IN THE AREA OF VALUATION OF COEXISTING PROPERTY RIGHTS

In any discussion on the interface between native title and economics, two issues are commonly identified as pivotal to understanding the

developing relationship between native title and anglo-Australian property rights.

*The issues are the economic impact of native title upon coexisting property rights, and the amount of monetary compensation which the holders of the ancient rights are entitled to, in the event that their native title is extinguished or diminished. To advance this discussion, this paper has been structured to first canvass the legal and administrative reality of native title post Mabo, and then to consider the impact of coexisting native title on tenures less than private freehold, or Crown land.*

In any paper such as this, it is reiterated that the reader should recognise that there is little case law or professional practice to provide the accustomed comfort as in anglo-Australian land and valuation law.

#### The Pervasive Nature Of Mabo And Wik

*The Mabo and Wik decisions have resulted in a reappraisal of Australia's settlement history and suggest that the doctrine of terra nullius would not have persisted for so long had the events of colonial settlement been more accurately reported. History has a particular utilitarian value, and is capable of, or, bringing an exposing light for the present.*

*Since Mabo, there has been a historic re-examination of the underlying principles of Australian real property, because in that decision it was held that the Crown at the time of British settlement in 1788 did not necessarily acquire absolute beneficial ownership of all land. Subsequently, in 1996 the Wik decision extended the principles of Mabo which had previously only existed on "waste Crown land", to potentially vast tracts of Crown leaseholds.*

*It remains unclear which specific leaseholds coexist or alternatively*

*extinguish native title, notwithstanding the slew of many newspaper articles since the Wik decision and the recent amendments to the Native Title Act Assertions in such articles have often been fiercely misleading to the reader, but have certainly made tabloid hyperbole endemic when dealing with native title matters.*

In addition, the recent amendments to the Native Title Act, especially Schedule 1, identify a whole raft of leasehold interests throughout Australia which extinguish native title and have now themselves been clouded by the recent decision in *Ward v State of Western Australia* (1998) 159 ALR 483 (*Miriwung Gajerrong*) which states that native title has survived the grant of certain pastoral and mining interests, and reserves. It should be noted that this decision is currently subject to an Appeal, but remains authoritative until the result of the Appeal is known.

The Institute (AIVLE 1997) has expressed great concern over the implications of poorly drafted amendments to the Native Title Act which will do little to assist attempts to achieve administrative efficiency. Indeed, the recent findings by the UN Race Discrimination Committee (Sydney Morning Herald 20 May 1999) strongly suggests that the amendments breach international convention, and contains provisions that extinguish or impair the exercise of native title rights and interests.

However, all of the above is only a reflection of the great intellectual tension first evident in the *Mabo* decision, and the increasingly pervasive nature of native title in the area of land law and valuation.

#### Case Law Relevant for the Co-existence of Native Title on Land

As stated previously, there is little case law to guide valuers when assessing

the value of land that is subject to native title claims, however, usefully Hyam (1997, p.1) has suggested that this area of valuation endeavour could be viewed as analogous to the impact of an easement. Before proceeding further with this line of reasoning, it is important to understand the legal concept of an easement which is helpfully described by Brown (1991, p.143) as:

*"a right attached to one particular piece of land which allows an owner of that land to use the land of another in a particular manner or to restrict its user by that other person to a particular extent. An obvious example is a right of way, a positive easement which permits a person to do something on the land of another. Another example is a right to light, a negative easement which signifies that an adjoining owner may not build so as to obstruct the flow of light. Another example is a profit a prendre, a right to take something off or from another's land, say, sand and gravel."*

Following from the above description of an easement, it is noted that Wilson J. in *Re: Toohey; Ex Parte Meneling Station Pty Ltd* (1982) 57ALJR 59 at 68 described a *profit a prendre* as:

*[a] right to enter another's land to take some portion of the soil or of its natural produce. The grant may confer an exclusive right, or it may be a right enjoyed in common with others. It may be granted either in perpetuity or for a fixed term and presumably it may by agreement be terminable on specified notice... The right to pasture may be the subject of a profit a prendre; the taking and carrying away is effected by means of the mouths and stomachs of the cattle in question.....Profits are classed as corporeal hereditaments and may be assigned. They may properly be described as interests in land.*

Based upon the above concept of an easement, Brown (p.144-145)

proposes that when estimating the impact of the forced acquisition of an easement, the following principles should be adopted:

*Where an easement is compulsorily acquired the principles to be applied in assessing compensation are no different from those applying when the full fee simple is acquired. For practical purposes it becomes a matter of assessing the extent to which the claimant has been disadvantaged as a natural and reasonable consequence of the taking of the easement. The test is the attitude of the hypothetical prudent purchaser and the extent to which in the opinion of such person the claimant has suffered diminution in the value of his property resulting...Each case must be considered according to the terms and conditions of the easement created and the frequency and magnitude of the disturbance likely to result in consequence of the claimant's proprietary rights. No fixed or constant figure may be laid down. Negligent or other tortious acts done by the employees or agents of a constructing authority are not compensable nor is the probability of such acts occurring. Lawful use only and its consequential effects, if any, can be considered in assessing compensation.*

These principles are based upon the concept of loss of access and/or special advantage that arises when the creation of an easement requires the assessment of compensation. The economic impact of the easement utilising the methodology proposed by Brown has its genesis in early case law which deals with injurious affectation, and the loss of specific rights such as access, advantage, and riparian rights.

The Courts' approach to such losses are described in three differing cases. Firstly, the diminution of light to a property was recognised as a compensable item arising from adjacent railway construction in *Eagle*

*v The Charing Cross Railway Company* (1867) LR 2 CP 638. A causal link between the reduction in light and market value was identified by the Court in this early case.

Secondly, a fishing ground and associated fishing rights were destroyed as a result of a compulsory acquisition of land, and in *Hone to Anga v Kawa Drainage Board* (1914) 33 NZLR 1139, it was held that riparian rights were a compensable item.

Thirdly, access rights to the sea, together with an associated *profit a prendre* to utilise sand and shell, all of which had been destroyed, were held in *Smale v Takapuna Council* (1932) NZLR 35 to be compensable items.

The above examples of case law *inter alia* provide an indication of the guideposts that Hyam (1997, p2) would apply to the valuation of land where there is coexisting native title. Clearly, past approaches to assessing the economic impact arising from the creation of easements, and the loss of special advantages such as solar access and riparian rights have particular relevance for the adoption of an appropriate methodology to determine the resultant value effect (if any) when native title coexists on anglo-Australian land tenures.

On a cautionary note, whilst these court decisions provide an useful overview of existing case law, it reiterated that there is almost no judicial guidance in this newly developing area of coexisting property rights. However, it can be anticipated that future judicial direction will clarify whether the current methods utilised by the valuation profession (and accepted by the courts) in determining the impact of the forced acquisition of easements and *profits a prendre*, are appropriate when considering the impact of native title on coexisting property rights such as

pastoral leases and other statutory estates.

In the next section of this paper, current developments towards a methodology for the valuation of land subject to native title will be addressed. However as stated previously, the recent amendments to the *Native Title Act*, especially *Schedule 1*, identify a range of leasehold interests which on first inspection extinguish native title. The valuer must recognise that the extinguishing power of such interests may be questionable given the previously mentioned decision in *Miriuwung Gajerrong*.

## VALUING LAND SUBJECT TO NATIVE TITLE CLAIMS

### Background to the Valuation

From the foregoing discussion, it will be seen that there does not exist any substantial judicial guidance for the valuation of land subject to native title. It should however not be construed that coexistence is only a recent arrival in rural and regional Australia.

Indeed, traditionally any conflict in land use on rural lands has been resolved by private arrangement between the pastoralist and the indigenous people concerned. As a result, multiple use of the land has been maintained and pastoral activities conducted such that they do not generally appear to have been in conflict with the indigenous peoples' need to enter the land for ceremonial or spiritual purposes, or for food gathering or access.

It is not widely understood that coexisting multiple property rights are an established feature of existing anglo-Australian land law, and that the term is used in the narrow context of legal interests in property. An individual can hold property rights granted by the Crown which coexist with other property rights over the

same parcel of land.

In the case of native title, the property rights held by a pastoral lessee may or may not be inconsistent with the bundle of rights known as native title. Those pastoral rights that are inconsistent may suppress or even extinguish native title to the extent of the inconsistency, however some of the native title rights within the bundle may not be affected.

It is a paradox that some pastoral lessees appear to view coexisting property rights as a threat to their continued rural enterprise, while holders of immensely more valuable property rights in intensively settled parts of Australia such as Central Business Districts are very familiar with such concepts. It is not uncommon for a specific parcel of land in a city centre to be a complex overlay of property rights held by a multitude of public and private interests, involving fee simple, extensive term leaseholds, strata fee simple and strata leasehold, easements for access and services, substratum fee simple and easements, statutory rights of occupation, licences, advertising rights, rights of public user over private land, together with more diffuse access rights associated with public places,

However, this coexistence of property rights is compounded by the increasing complexity of planning and environmental controls. Such controls when added to this overlay of coexisting property rights ensure that any attempt at valuation will be a sobering exercise, and this lesson is now being felt by owners of pastoral holdings.

Whilst native title is a recent arrival on the land law scene, it is fatuous for land holders in rural or regional areas to assert that their properties are unaffected by the broader developments occurring in planning and environmental control. It is

important that these controls are recognised, as some planning and environmental instruments already require that the land owner recognise that indigenous sites on their properties are controlled, as are other important features such as native vegetation, marine and terrestrial fauna, and ground water.

As an example, a description of the general planning and environmental controls that impact upon a broad acre property in the south west of NSW will be provided. In this example, the local government area of Hay Shire has been selected, as it is centred on the Murrumbidgee River, and is the repository of significant indigenous relicry.

In this local government area, most rural properties are zoned "1(a) (General Rural Zone)" under the *Hay Local Environmental Plan 1998 (LEP)* which was gazetted on 1st December 1998. The objectives of this zoning:

...is to promote the proper management and utilisation of resources by:

(a) protecting, enhancing and conserving:

- (i) agricultural land in a manner which sustains its efficient and effective agricultural production potential, and
- (ii) forests of existing and potential commercial value for timber production, and

valuable deposits of minerals, coal, petroleum and extractive materials, by controlling the location of development for other purposes in order to ensure the efficient extraction of those deposits, and

(iv) trees and other vegetation,

including vegetation the conservation of which

(v) is significant to scenic amenity, recreation or natural wildlife habitat and corridors or is likely to control land degradation, and

(vi) water resources for use in the public interest, and

(vii) localities of significance for nature conservation, including localities with rare or threatened species of flora, threatened species of fauna, wetlands and significant wildlife habitats and corridors, and

(viii) places and buildings of archaeological or heritage significance, including the protection of Aboriginal relics and places, and

(a) facilitating farm adjustments and

(b) minimising the cost to the community of:

- (i) fragmented and isolated development of rural land, and
- (ii) providing, extending and maintaining public amenities and services, and

(a) providing land for future urban development, for future rural-residential development and for future development for other non-agricultural purposes, in accordance with the need for that development.

(LEP cl.1, pp.9622-9623)

Prior to gazettal of the *LEP* in 1998, such land was zoned "Non Urban `A'" under *Interim Development Order No.] - Shire of Hay*, and contained similar provisions under this zoning

as the subsequent zoning under the LEP.

Generally, the zoning under the LEP permits the use of land for agricultural, forestry and mining purposes, and also allows subdivision of such land for these purposes. However, the LEP restricts subdivision of land within this zone, such that:

[t]he Council must not consent to a subdivision of land within Zone No 1 (a) if any allotment to be created by the subdivision will be used primarily for purposes other than agriculture or forestry unless, in the opinion of the Council, the area of each allotment to be created by the subdivision is appropriate, having regard to the purpose for which it is being created.

(LEP, cl.12(4), p.9627)

Importantly, cl.(a)(vii) of the LEP identifies the protection of indigenous relicry and places as an objective of this zone. This is not surprising as the Shire contains a large number of indigenous heritage sites. Littleton (1996, p.13) records that some properties in the Hay area contain numerous burial mounds, cemeteries and a range of indigenous occupation sites including scattered hearths and stone artifacts. On one property, she notes that:

...eighty-nine human remains were recorded ... not including the cemetery where 20 individuals and [elsewhere] ...where 3 individuals were recorded..

In addition, Littleton (1996, p.8) notes that:

...the river margin remains relatively unexplored. In particular it is expected that there are potentially more scarred trees as well as possible middens down along the river.

Importantly, Littleton (1996, p.14) also notes that:

... the greater number of mounds west

of Hay reflects a real difference and that burial in mounds at Hay was part of the cultural tradition.

Earth mounds have been the subject of significant research throughout the riverine areas of south eastern Australia, and:

the mounds are usually found in clusters close to rivers, and more than 3000 of them still exist in valleys around the Murray River and its tributaries.

Excavations had shown many of the mounds had been used as campsites, and some contained stone artefacts and animal bones, while some of the larger mounds had been used as burial sites.

(KooriMail 11.03.98, p.17)

The Wiradjuri people were the traditional owners of this area, and recent research by Clayton and Barlow (1997) provides an understanding of the traditional social structure, law and economy of these native title claimants.

All of the above suggests that some properties in the Hay Shire may be significantly constrained by the presence of indigenous heritage sites, especially as more information is revealed by research regarding the number and location of burial mounds in the area.

When attempting to value such a property, it is obviously important to be fully appraised of the presence or likely presence of items of indigenous heritage. As mentioned earlier, some of these items of indigenous heritage are readily identifiable and are of significance. On one property in the Hay area, Littleton (1996, p.10) notes that:

those mounds situated along the river margins are substantially smaller (between 35 to 150 square metres) than those on the scalded plain

(average 1181 sq metres). There is a much greater variability in mound size in the scalded plain than either the floodplain or river margin.

Most mounds were roughly circular in shape, with sloping sides and a low platform shaped top surface. Several, however, were more conical in shape and these were generally higher and contained a darker matrix to the other mounds.

However, the valuer should exercise great caution in attributing to the presence of indigenous relicry, a confirmation that coexisting native title rights and interests have survived and therefore impact upon the utility of the land in question. These issues are separate matters for consideration.

Whilst the prediction of native title is always problematic in the absence of a formal Determination by the National Native Title Tribunal (or the Federal Court), indigenous relicry is not always a good diagnostic marker as to whether indigenous rights and interests have survived, and their likely nature. Any surviving indigenous heritage items and sites such as burial mounds, important though they may be historically and culturally, may not represent a satisfactory evidentiary proof that native title rights and interests have survived and are presently being exercised in this area.

In addition, it must be recognised that there is also a large raft of planning and environmental controls apart from indigenous heritage protection, which may have even greater impact upon the utility of a particular property.

For example, properties having a frontage to the Murrumbidgee River are included within the classification "Environmentally sensitive land" in the LEP, and are subject to the following controls:

(1) A person must not carry out

development on environmentally sensitive land for the purpose of any of the following:

- (a) intensive livestock keeping,
  - (b) junk yards,
  - (c) liquid fuel depots,
  - (d) offensive or hazardous industries,
  - (e) sawmills (other than mobile sawmills),
  - (f) stock and sale yards.
- (1) A person must not, except with the consent of the Council, cause the destruction of trees on land classified as environmentally sensitive otherwise than in accordance with a vegetation management plan approved by the Department of Land and Water Conservation.
- (2) The Council must not consent to an application made for the purposes of subclause (2) unless, in the opinion of the Council, the destruction of trees on the land will be carried out in a manner which, in respect of that land and adjacent land, minimises:
- (a) the risk of soil erosion and other land degradation, and
  - (b) the loss of scenic amenity, and
  - (c) the loss of important vegetation systems and natural wildlife habitats
- (LEP cl.18 p.9629)

In applying *cl.18* of the *LEP*, any development within 200 metres of the bank of the Murrumbidgee River would be subject to the following controls:

- (1) Despite any other provisions of this plan, a person must not,

except with the consent of the Council:

- (a) destroy any tree on land within 200 metres of any bank of a river otherwise than in accordance with a vegetation management plan approved by the Department of Land and Water Conservation, or
  - (b) erect a building or carry out any other development on land within 200 metres of any bank of a river.
- (1) The Council must not consent to any development on land comprising a bed of a river.
- (2) The Council must not consent to an application required by subclause (1) unless, in the opinion of the Council, the destruction of the trees or the development of the land, including subdivision of the land, will be carried out in a manner which, in respect of that land and the adjacent land minimises:
- (a) the risk of soil erosion and other land degradation, and
  - (b) the loss of scenic amenity, and
  - (c) the loss of important vegetation systems and natural wildlife habitats, including fish habitats.
- (1) The Council must not consent to an application required by subclause (1) unless the Council is satisfied that adequate services for waste water disposal and stormwater disposal will be available to the land for its proposed use.

(LEP, cL.28, p.9632)

These controls have developed over the past few years arising out of a

number of environmental degradation issues, especially salinisation processes. Powell (1993, p.39) notes that:

*...scalds (in semi-arid country) were not uncommon before the European invasion, but they multiplied with the stress of grazing pressure, the removal of protective vegetation, rising water tables and wind erosion.*

Powell describes the productive benefits in the Hay plains of retaining the natural salt bush and lignum and identifies the emergence of "scalded" land in the area as a direct result of overgrazing and vegetation denudation. As a result, research such as that conducted by the CSIRO (Department of Environment Sport and Territories, 1995:1996) subsequently led to action to protect and manage native vegetation (Department of Land and Water Conservation 1997a: 1997b). Management and conservation of native vegetation is now covered by the provisions of the *Native Vegetation Conservation Act 1997*, and best practice is documented in supporting literature (Western Riverina Natural Grasslands Committee 1996; Department of Land and Water Conservation 1998a, 1998b).

In addition to the above, many properties have been identified by the Department of Land and Water Conservation, Hydrogeology Unit as having ground water vulnerability rating, and are rated according to the level of concern. A rating such as "moderately high" requires a Council and other regulating agencies when considering development proposals on specific properties, they should:

*...make better informed judgements on where to locate potentially polluting activities so as to minimise the risk to ground water resources.*

(Department of Land and Water Conservation 1997c)



*In summary, many properties in the Hay area would appear to encompass two significant conservation values: riverine landscape and indigenous heritage values, and environmental sensitivity, which are both recognised in current environmental and heritage provisions contained within instruments such as the LEP.*

As a result affected properties may have only limited capacity to accommodate intensification of current uses, and particularly a change of use, especially a more intensive use. A valuer should recognise that concerns over the ability of a property to accommodate a specific development given issues of flood events, riverine vegetation retention and ground water vulnerability can sometimes be significantly overshadowed by indigenous heritage protection, and native title.

It may be necessary for the valuer to recommend to the client or employer that expert assessments be obtained to ascertain the ability of the property to accommodate any development at all, given the prospects for impact on indigenous relicry, such as burial mounds. It can be seen that in some circumstances, the result will be that the likely prospect for impact upon these heritage items would be such as to preclude most development proposals which would ordinarily be contemplated, such as laser contour ploughing or rice cultivation.

In the following section of this paper, it is intended to address how these complex issues can be approached with a view to undertaking a valuation of land, which realistically addresses the impact of native title.

#### Identifying coexistence conflicts

As previously stated, the decision in *Wik* highlighted the limitations on the property rights granted to pastoralists, and whilst unpalatable, the decision merely reaffirmed the constraints

implicit in such rights. Debate continues on whether the perceived dysfunctional nature of coexisting multiple property rights will have a deleterious effect on the value of pastoral leases.

Continuing research by the Australian Property Institute over the 2 1/2 years since the *Wik* decision suggests that some market uncertainties have arisen, however such concerns appear overstated. Clearly, there are other factors at play in the market notably planning and environmental issues, climatic and disease issues, and particularly economic issues such as commodity prices and exchange rates, which are causing greater concern than native title.

The alleged market reaction was somewhat surprising as there has been a long history of recognition of indigenous property rights within Crown leasehold interests in Australia. At various times, Imperial, colonial and State governments have all acted to ensure the protection of some elements of native title when Crown land has been leased to private parties.

However, the rights of such leaseholders can be quite variable, emanating from the terms and conditions of the grant of the leases, and in specific native title determinations such matters will be considered in their fullness. Also, native title as a bundle of property rights remains unclear and this fact will have a large bearing on particular situations where the extinguishment of native title by pastoral or mining interests is problematic as highlighted in the *Miriwung Gajerrong* decision.

The economic consequences of the coexistence of native title with leasehold interests is driven by the degree of uncertainty perceived, primarily by lenders. As previously mentioned, research since the *Wik* decision (Sheehan & Wensing 1998:

Gardiner 1998) suggests that the value of pastoral and mining interests operating within the parameters of the creating document have been almost wholly unaffected by native title claims, or the likelihood thereof.

In attempting to ascertain whether the native title rights and interests coexisting (or alleged to coexist) on a property impact upon the utility of the land, and hence its value, it must be recognised that the emergence of native title in Australian land law has also acted as a catalyst for those seeking to resolve specific coexistence issues.

Importantly, the decision in *Wik* also highlighted an urgent need for dispute resolution techniques which can operate effectively in a multi cultural environment. The indigenous cultural environment, whilst recognised as part of the broader multi-culturalism of Australia has required the development of culturally appropriate dispute resolution techniques which recognise the legal fact that native title is a valuable property right. Because native title was only first recognised by the common law in 1992, there has been a relatively short period of time for an appreciation of the indigenous approach to coexisting issues to develop amongst the non-indigenous community. Apart from the often begrudging recognition that indigenous property rights have value, there has also been a slow acknowledgment that indigenous people are the earliest component of our multicultural society.

One of the reasons why judicial and other adjudicative means have been increasingly foregone as the sole means of resolving disputes in Australia, is the recognition of multi-culturalism. However, a culturally inclusive and pluralist approach to dispute resolution, especially native title coexistence, is only a very recent development in Australia.

Some writers note that a precondition for just outcomes in such disputes is a recognition that there exists a heterogeneous Australian community which can have differing cultural interests and values.

Given the above, it is noteworthy that rural and indigenous interests are seeking non-adjudicative resolutions of issues and disputes arising from the coexistence of native title on properties. These approaches are admittedly imperfect, and sometimes seriously flawed, however they do represent tentative moves which have implications for the development of a methodology for the assessment of compensation for the diminution, impairment or extinguishment of native title.

In the case of coexistence, there is clearly an ongoing relationship in many situations, and a need for a resolution which recognises this phenomena.

Alternative dispute resolution techniques may provide an avenue through which the parties recognise that their respective property rights can coexist in an environment of maturity and good will. This type of participatory mechanism enables the parties to understand that they may share many interests and responsibilities in common, and that the resolution of a particular coexistence issue might not be as difficult as first envisaged.

Interestingly, such a framework has distinct possibilities in the area of compulsory acquisition of native title, enabling the non monetary components of any compensation package to be developed in a non adjudicative manner whilst leaving those quantifiable components to be dealt with by normal commercial negotiation, or if necessary administrative or judicial determination.

### A Valuation Methodology

Existing case law as outlined earlier in this paper, together with established valuation practices, directs according to Hyam (1997, p.2) that regard must be had to the following when attempting to value an interest in land where there may be coexisting native title:

- (a) *The nature of the rights conferred by the native title. It must be established whether they entitle the native people to access only or other rights are conferred, such as, the right to camp or dwell on the land, the right to fish and hunt game.*
- (b) The frequency at which the rights will, or are likely to, be exercised; the number of people who may enjoy the rights.
- (c) The number of occasions upon which the rights have been exercised in the past.
- (d) The impact which the exercise of the rights will have on the interest of the co-existing owner in the land.
- (e) The attitude of the hypothetical prudent purchaser to the co-existing rights.
- (f) The possibility of the native people killing stock and causing wrongful damage to the property of the co-existing owner, though strictly not claimable as a head of compensation upon compulsory acquisition, may be factors which the hypothetical prudent purchaser would take into account.

Hyam (1998, p3) suggests that the abovementioned valuation exercise is in effect assessing the impact of native title on the interest of the coexisting owner. Any disadvantages which are identified as a consequence of the presence of native title would be reflected in the market value, in a

manner similar to how easements are treated.

There has been a consistent view by commentators that the nature of any recognised native title in settled areas of Australia will be most likely described in a manner analogous to anglo-Australian land tenures that are less than private freehold, such as easements. This line of reasoning was also supported by the Institute (AIVLE, 1996) in its submission on the (then) *Native Title Amendment Bill 1996* as follows:

*The Institute is of the view that few claims for native title will ultimately be successful, as the most that will probably be achieved is a form of tenure that will be demonstrably less than freehold. The bundle of property rights that may comprise a particular native title could amount to little more than an easement or a profit-a-prendre in many cases.*

(AIVLE 1996, p.4, para 3.4)

If the guidelines suggested by Hyam are adopted, the valuer should apply an inconsistency test to ascertain whether or not native title can be asserted. This is undertaken by conducting a three part test, the first being the ascertaining of what rights were conferred by the pastoral lease or statutory estate. The object of the statute creating the leasehold interest should be determined, and the terms of grant of the interest understood.

Once this first part of the inconsistency test is completed, the valuer then needs to identify (to the extent possible) the native title rights and interests which are, or may be asserted by claimants. It should be remembered that s.223 of the *Native Title Act 1993* establishes that such rights and interests must be rooted in a system of traditional law which gives rights to land. It is only those native title rights and interests which

pursuant to s.223 are recognised by common law, other rights or interests may exist in the world of Aboriginal law and custom but are not recognised by common law.

It is not widely understood that the bundle of interests comprising native title rely solely for their existence in Australian society:

*... upon the extent to which a different legal system accords them its recognition.*

(Kirby, J. in *Jim Fejo & David Mills on behalf of the Larrakia People v The Northern Territory & Oilnet (NT) Pty Ltd* (1998)156 ALR 721)

As unpalatable as the above comment by Kirby J. may be to indigenous stakeholders, the reality is that whilst certain rights and interests may continue within the indigenous world, they rely wholly for their legal existence as a valuable property right on the anglo-Australian legal system. It is clear that any attempt to assess the impact of such rights and interests is dependant upon their effectiveness in terms, which while they reflect sensitivity to cultural differences, must be within the evidentiary framework of the law to the degree achievable, made understandable and hence capable of assessment.

Finally, the valuer then compares the rights that were conferred by the leasehold interest with those native title rights and interests that are recognised by common law. If any of the rights and interests asserted by indigenous people are inconsistent with those rights conferred by the leasehold, then the rights of the lessee prevail. To the extent of the inconsistency, the native title yields to those rights conferred upon the lessee.

Clearly, if the lessee is acting within those rights conferred by the lease in accordance with the terms of grant and the object of the creating statute, then

the economic impact of coexisting native title will presumably be nominal. In this regard it will be seen that the test is analogous to that which is currently undertaken by valuers assessing the economic impact of the compulsory imposition of an easement upon land.

Given the above, it is noted that the Institute's Exposure Draft for GN 27 may be released in the next few months setting out detailed guidance as to how a valuation of a property subject to native title should be undertaken. Broadly, the Exposure Draft attempts to advise that as a professional standard, members should diligently obtain information from bodies such as the National Native Title Tribunal, local indigenous bodies, the NSW Aboriginal Land Council and government agencies, such that they can form a view as to the impact of co-existing native title upon the property to be valued. Once these inquiries have been completed, the valuer would then undertake the inconsistency test outlined earlier within Hyam's guidelines, to produce an informed assessment of the value of the property subject to native title.

Where it is concluded by the valuer that there is no obvious indication of the presence of native title, it is noted that the Exposure Draft may recommend that the following typical clause could be used:

A visual site inspection and (detail other research) has not revealed any obvious presence of native title. Nevertheless, we are not experts in native title or the property rights derived therefrom and, have not been supplied with appropriate anthropological, ethnoecological and/or ethnographic advice. Therefore, the property valuation or assessment is made subject to there being no actual or potential native title affecting:

The value or marketability of the

property; (or...)

The land (... as applicable).

Verification that the property is not subject to co-existing native title interests should be obtained from a suitably qualified expert. Should subsequent investigation show that the land is subject to existing or potential co-existing native title interests this property valuation or assessment will require revision."

(Draft GN27, Extract from Section 27:3.8 Qualification if no obvious native title)

It is noted that the Exposure Draft may further recommend that members should not hold themselves out as an expert on the valuation of co-existing property interests subject to native title, as it should be remembered that to do so given the uncertain state of knowledge about native title, could lead valuers vulnerable to claims of professional negligence.

However, where searches of the registers at the National Native Title Tribunal and other indigenous records reveal that detailed information cannot be obtained, it is noted that the Exposure Draft may recommend that the valuer prepare the report on the basis that the property is not subject to a co-existing native title interest. Further, that the report ought to be qualified on the basis that some elements of native title rights and interests may exist and if present, could have an impact on the value, usage or future development of the property.

While the presence of indigenous relicry (as discussed earlier) may be a useful guide in some circumstances as to whether native title may have survived, it is also not necessarily a good diagnostic marker. This is notwithstanding the fact that in many cases:

...the existence of significant [indigenous heritage] areas will be relevant to proving the existence of native title.

(ATSIC 1998, p.39)

Given that heritage values and native title may be intimately related, the Exposure Draft may provide an example of the type of qualification that could be appropriate in these circumstances, namely:

From our inspection of the property we consider that there is (or could be) a potential for (detail possible native title rights and interests) to exist and would recommend that advice should be obtained from a suitably qualified expert. Please note that our valuation (or report) has been prepared on the basis of no survival of native title rights and interests. Should the above mentioned expert advice reveal any evidence of native title our valuation (or report) will require revision.

(Draft GN 27, Extract from 27:3.11 Where Detailed information Cannot be Obtained)

## CONCLUSION

It can be seen from the foregoing discussion that native title must be diligently addressed when undertaking a valuation of land that is subject to native title claims, or is likely to be the subject of such a claim at a future date. It is clear that the presence of indigenous heritage sites and items form part of a larger and increasingly pervasive overlay of planning and heritage controls, especially in rural and regional parts of Australia.

It is important that the difference between indigenous heritage values and native title rights and interests is understood, notwithstanding their obvious interrelationship in many circumstances. The valuer is faced with forming a view as to the likely

economic impact that coexisting native title may have on a particular property, and this task can only be diligently discharged after correct inquiry. To do otherwise, may leave the valuer exposed to claims that the requisite professional standard has not been achieved.

The useful guidelines provided by Hyam, when coupled with the required inconsistency test, would appear to be the desired methodology by which this standard can be achieved.

Great benefits can accrue to the valuation profession if it displays to the broader community its willingness to address this newly emerging area of land law. Admittedly, some commentators have suggested that the profession ought not to be proactively engaging in the development of a methodology which hopefully will establish industry standards. Alternatively, they suggest that the profession should await direction from the Courts over the next few years.

Such an approach is fundamentally flawed, as who else can the Courts or society inquire of, as to the valuation of land subject to native title claims?

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CASE NOTES:

# OWNERSHIP OF THE WHANGANUI RIVER

## From the Waitangi Tribunal 1999

*This case note was provided by Gerald Lanning, Solicitor, Chapman Tripp, Auckland*

"For nearly a millennium, the Atihaunui hapu have held the Whanganui River. They were known as the river people, for uniquely amongst the rivers of New Zealand, the Whanganui River widens through a precipitous terrain that confined most of the large Atihaunui population to a narrow margin along its banks. There were, last century, some 140 river pa and many large, carved houses that tell of substantial and permanent settlements. The river was central to Atihaunui lives, their source of food, their single highway, their spiritual mentor. It was the aortic artery of the Atihaunui heart. Shrouded in history and tradition, the river remains symbolic of Atihaunui identity."

That is how the Waitangi Tribunal ("the Tribunal") introduced the Whanganui River Report 1999 ("the Report"). To many, the Whanganui River ("the River") is a 'public' resource and, accordingly, commentary on the Report has tended to focus on the Tribunal's finding that a section of our society can 'own' the River. In this case, the section of our society was Te Atihaunui-a-Paparangi ("Atihaunui"). However, the Report has a far greater scope than mere ownership. Atihaunui's claim is not about exclusive ownership of the river. Instead, Atihaunui sought recognition of their ownership and the power to control and manage the use of the River and its environs.

Although thorough and complex, the Tribunal's findings can be summarised as follows:

At 1840 Atihaunui possessed and controlled the River (including its bed, the water, and the adjacent lands);

Atihaunui have never willingly extinguished their rights of possession and control;

Acts of the Crown, and the operation of the common law

divested Atihaunui of those rights;

That divestment was in breach of the principles of the Treaty of Waitangi ("the Treaty").

### Possession and control

The Tribunal found that:

"At 1840, the hapu of Atihaunui, collectively as to the whole and individually as to the parts, possessed the Whanganui River. It maintained a practical control of that area and held in respect of it an authority or rangatiratanga."

That finding was supported by the common law, case law, and the Treaty itself.

### The common law

The Tribunal comprehensively dispelled the myth that New Zealand was colonised on the basis that rivers were publicly owned:

*"Under the law that the settlers brought with them from England, it was presumed that, from the tidal reaches to the sources, riverbeds were privately owned by the riparian owners to the centre line. Only that part from the sea to the end of the tidal reach was said to be owned by the Crown. The ownership as so settled determined rights of access and use. The private property right was subject to such rights of public navigation as existed by immemorial use or dedication."* (emphasis added)

Therefore, at common law, it was likely that Atihaunui owned the bed of the River (except for its tidal reaches) because they owned the riparian lands.

### Case law

Ever since 1847 the Courts have recognised the prior property rights of Maori under the doctrine of "native" or "aboriginal" title. Relevantly, in *Te Rungānuī o Te Ika Whenua Inc Society v Attorney General* [1994]

2 NZLR 20, the Court of Appeal applied the doctrine in the context of the Rangitaiki, Whaeo and Whirinaki rivers. The Court described the doctrine as follows:

"Aboriginal title is a compendious expression to cover the rights over land and water enjoyed by the indigenous or established inhabitants of a country up to the time of its colonisation.

Usually, although not invariably, communal or collective. It has been authoritatively said that they cannot be extinguished (at least in times of peace) otherwise and by the free consent of the native occupiers, and then only to the Crown and in strict compliance with the provisions of any relevant statutes".

Accordingly, at 1840 it was likely that Atihaunui had aboriginal title to the bed of the River.

With specific reference to the River, 24 years of litigation (from the Native Land Court to the Court of Appeal) over the ownership of the River's bed, clearly established that the bed was owned by Atihaunui in 1840.

### The Treaty

Under the Treaty, the Crown guaranteed to Maori their "*full, exclusive and undisturbed possession of their lands and estates, forest, fisheries and other properties which they may collectively or individually possess so long as it is their wish and desire to retain the same in their possession*".

It was clear to the Tribunal that the River fell within the meaning of "*other properties*". Accordingly, at the time of the Treaty, Atihaunui had "*exclusive and undisturbed possession*" to the River, which the Tribunal equated with "ownership".

### What was owned?

Therefore, in terms of both the common law and the Treaty,

Atihaunui owned the *bed* of the River. The question was whether it was appropriate to separate the bed from other parts of the River (for example, the water and adjoining lands). By applying the following two principles, the Tribunal found that it would be **inappropriate** to make such a separation:

At common law "*native title is to be rendered conceptually in its own terms, and not in terms of systems that have grown up in England*";

The Treaty guaranteed what Maori possessed, and that must be determined in terms of what they possessed in fact, according to their own constructs.

Applying either of those two principles to the facts, led to the same conclusion, namely, what Atihaunui possessed in 1840 was a "*river resource*" and not a dry bed:

*.. in Maori terms, the ... River is a water resource, a single and indivisible entity, a resource comprised of water, banks and bed. There is nothing unexpected in that. It is obvious that a river exists as a water regime and not as a dry bed. The conceptual understanding of the river as a tupuna or ancestor emphasises the Maori thought that the river exists as a single and undivided entity or essence. Rendering the native title in its own terms, then, what Atihaunui owned was a river, not a bed, and a river entire, not dissected into parts. "title".*

### Rights of possession and control never willingly extinguished

The historical record revealed Atihaunui's determination to hold on to the control of the River at all costs from the moment their river rights appeared to be threatened. That determination was exemplified by:

Involvement in the land wars and general resistance to land transactions;

Protests and petitions concerning the use of the River including obstruction of channel clearance work, and compensation claims for gravel extraction;

24 years of litigation over the ownership of the bed of the River;

Challenges to the granting of planning permission to use the River including use of the water for the Tongariro power scheme.

However, at no time did Atihaunui object to the reasonable use of the River by the public so long as the mana (or authority) of Atihaunui was respected:

"While settlers sought ownership of land and political control, as consonant with their traditions, Maori, following traditions of their own, sought a relationship with pakeha where Maori mana or status would be recognised. The English incidence of land ownership and their centralised system of power were unknown."

### Divestment of Atihaunui's rights.

The Tribunal found that the rights of possession and control which Atihaunui had at 1840 were gradually eroded and divested by acts of the Crown and the operation of the common law.

### Acts of the Crown

The most notable acts of the Crown which divested Atihaunui of their rights were:

A raft of legislation specifically providing for the development of the River, the port, and urban areas;

The Coal-Mines Amendment Act 1903 which vested ownership of

the riverbeds of all navigable rivers in the Crown;

The Tongariro power scheme and the public works legislation that allowed it to be built;

A number of 'planning' statutes which vested the control and management of natural resources in the Crown or entities such as regional councils.

Most relevant, in terms of the Tribunal's recommendations, was the operation of the Resource Management Act 1991 ("RMA") because it tended to perpetuate the divestment of Atihaunui's rights.

The orthodox *view* of the RMA is that it does not deal with ownership issues but instead deals with rights to use natural and physical resources. Importantly, however, the RMA places the control and management of rivers in the hands of regional councils, and relegates Maori to the same status as other river users.

#### The common law

During the litigation concerning ownership of the River's bed (noted above), the Court of Appeal held that the *ad medium filum aquae* doctrine applied to Maori land adjoining the Whanganui River. Under that doctrine there is a presumption that the owners of land which adjoins a river, also own the bed of the river to the centre line of the river. Accordingly, when title to land was individualised and the land was sold, the bed of the river was also sold.

The point was that most (if not all) Maori would not have realised that by selling land they were also selling the river. The Tribunal also noted that it was unlikely that even the courts at the time were aware of this result.

#### DIVESTMENT IN BREACH OF THE TREATY principles

It is the Tribunal's role to determine

whether the divestment of Atihaunui's rights breached the principles of the Treaty.

The Tribunal found that the following principles of the Treaty were relevant in this case:

The Maori gift of *kawanatanga* (governance) to the Crown was in exchange for the Crown's protection of Maori *rangatiratanga* (the right to control resources);

The Crown has a duty to actively protect Maori interests;

The Crown cannot avoid its duty of active protection by delegating responsibilities to others;

The Crown and Maori must act towards each other reasonably and with the utmost good faith.

It was clear to the Tribunal that the acts of the Crown (discussed above) and the application of *ad medium filum aquae* breached those principles by divesting Atihaunui of their rights without consent, consultation or compensation.

#### THE TRIBUNAL'S RECOMMENDATIONS

The Tribunal made the following recommendations to remedy the breaches:

Legislation should be enacted that recognises Atihaunui's authority and ownership over the River "as *an entity and as a resource, without reference to the English legal conception of river ownership in terms of riverbeds*".

Atihaunui should be given an active decision-making role under the RMA either by:

vesting the River in an ancestor or ancestor's representative of Atihaunui and appointing the Whanganui River Maori Trust Board as trustee. Any resource

consent application (or proposed plan provision) concerning the River would then require Atihaunui's consent; or

appointing the Trust Board as a "consent authority" under the RMA. Any resource consent application (or proposed plan provision) would then be dealt with jointly by the Trust Board and other relevant consent authorities (e.g. the Manawatu Wanganui Regional Council). The Trust Board's decisions would be subject to the general appeal provisions under the RMA.

Compensation should be paid to Atihaunui for the taking of water for the Tongariro power scheme, and the gravel which was extracted from the River.

#### Discussion

Three of the more notable issues raised in the Report are:

the ownership of free flowing water;

the principles of the Treaty and Parliamentary sovereignty;

whether it is racist to vest a river in a section of society?

#### Ownership of water

Free flowing water cannot, at law, be owned. However, the Tribunal found that:

at 1840, Atihaunui owned the River (and recommended that ownership should be returned);

the "River" includes the water and the adjoining lands.

In an attempt to reconcile its findings with the position at law, the Tribunal sought to frame the issue in terms of "access" rather than "ownership":

.. the issue is not about the ownership of water. The Treaty



guaranteed to Atihaunui the 'full exclusive and undisturbed possession of their ... properties'. As earlier seen, that includes the river and that must include as well the property right of access to the river water."

The notion of a right to control access to the River will raise alarm bells with other River users. In fact, this element of the Tribunal's findings was important enough to convince one Tribunal member (John Kneebone) to dissent. He was not able to support any proposal that Atihaunui should have any greater rights over the river water than any other person.

### Principles of the Treaty and parliamentary sovereignty

The Crown argued that the statutes which, according to the Tribunal, breached the principles of the Treaty, were enacted through the legitimate exercise of the Crown's right of *kawanatanga* (governance). The Tribunal responded by stating:

"We do not agree, governance was conditioned by article 2 of the Treaty and could not be exercised to negate it. As an integral part of the river, the bed was also guaranteed to Maori. The right of governance carried the duty to protect Maori properties, not to take part away."

According to the Tribunal, therefore, the Crown's right to govern is subject to the Crown's duty to actively protect Maori interests. Such a finding is inconsistent with the fundamental constitutional principle of parliamentary sovereignty which gives Parliament the freedom to make legislation without interference from the Courts. The inconsistency highlights the difference between the Courts and the Tribunal. The Tribunal can only *recommend* to the Crown how to remedy breaches of the Treaty principles. It cannot *legally* enforce the principles. In fact, the orthodox position is that the Treaty principles

are not recognised at law unless they are incorporated into statute.

However, cognisance of the Tribunal's recommendations is taken in the political sphere. In that context, therefore, the Treaty principles can be viewed as having some constitutional force.

### Are the Tribunal's findings racist?

As noted in the beginning of this article, much of the commentary concerning the Report has focused on whether it is appropriate to vest the River in a section of our society. However, the overarching theme of the Tribunal's recommendations is of recognising Atihaunui's 'ownership' but sharing the control and management of the River with other entities such as the Manawatu-Wanganui Regional Council.

In that regard, the Tribunal pre-empted any claims that its findings were racist:

.. we set aside any suggestion that the Atihaunui entitlement confers a privilege based on race. It is neither a privilege nor racist that a people should be able to retain what they have possessed. Property rights go to the heart of any just legal system. It is not a privilege that the claimants should be able to retain their property, even though the public may use parts of that property for recreational purposes. It would not be a privilege even where the law that other New Zealanders were liable to lose property simply because the public desired it. The origin of Atihaunui's title, unlike that of the general population, is not based on fealty to the Crown, for it predated the Crown. In any event, it was a condition precedent to settlement in New Zealand that the properties were guaranteed to them by the Crown."

No doubt, the public will wait with interest to see how the Crown

responds to the Report and the Tribunal's recommendations. The Crown's response will be particularly important given the possible precedent it may set for claims to other rivers such as the Waikato.

## I) BEFORE THE LAND VALUATION TRIBUNAL HELD AT GISBORNE

LVP 27/96

Between Houpoto Te Pua Forest  
(Objector)

And The Valuer General  
(First Respondent)

And Houpoto Te Pua Trustees  
(Second Respondent)

Date of Hearing 22, 23, 24 July 1998

Submissions By 7 August 1998

Counsel Brian J Joyce for the Objector Clendon Feeney, Solicitors, Auckland  
M T Parker for the Valuer General Crown Law Office, Wellington A  
W Johnson for Second Respondent Martelli McKegg Wells &  
Cormack, Solicitors, Auckland

Tribunal Judge A N MacLean (Chairman)  
Mr E C Bowis  
Mr M G Cotterill

Date of Decision 31 May 1999

## RESERVED JUDGEMENT OF THE TRIBUNAL

This issue for determination is to establish the capital value of the subject land for the purposes of fixing the appropriate rent expressed as a percentage of the "Lessors capital value", as that term is defined in the applicable lease. In that lease, which is a 99 year lease running from 22 July 1985, the "Lessors capital value" is defined as *"the capital value of the land in the state of development existing on the 1st day of April 1976, such capital value to be determined by periodic valuations made by the Valuer General"*.

The applicable date for the purposes of this decision is 1 April 1996.

The leased land comprises an overall area of 5254.0788 hectares in three separate titles.

It is located in the Eastern Bay of Plenty area on State Highway 35 beside the south bank of the Motu

River, 45 kilometres north of Opotiki, and approximately 115 kilometres from the nearest timber processing facilities at Kawerau.

The information before the Court describes it as one of several large coastal properties, which were developed out of native bush before the First World War. Other similar properties include Ohotu, Haparapara, Waikawa, Tawaroa, Mangaroa, and Orete.

The evidence was that the properties were all farmed sporadically for 70 or so years with varying degrees of success, but the combination of high reversion, warm climate, lack of finance, labour and fertiliser, defeated most efforts except on Tawaroa, which was apparently on easier country.

The area generally is zoned rural C under the Opotiki District Council Operative District Scheme. The

present permitted use of exotic forestry is protected under s.10 Resource Management Act 1991.

The Houpoto Incorporation farmed the land on its own account from 1962 to 1971, and following a recommendation of the Department of Maori Affairs that afforestation be considered, due to the increased economic difficulties of farming the area, negotiations were entered into with Caxton Paper Mills Limited in 1975 for a 99 year profit sharing afforestation lease, a provision of which is the subject of this hearing.

The first planting of 128.8 hectares of pinus radiata was completed in 1977. In 1993, the Maori Land Court made an order under s.438 of the Maori Affairs Act 1953, vesting the leased land in the name of the trustees of the Houpoto Te Pua Trust.

It is clear from the very comprehensive background historical information furnished by the Lessee drawn substantially on resources and information provided by the Maori Lessor, as freehold owners, that the whole area itself is of great historical importance to the people of Houpoto, and in particular the Iwi grouping, known as Te Whanau Apanui, which involves approximately 4 to 5 hapu and up to about 800 whanau, with a long and deep emotional, spiritual and occupational link with the land.

### The Specific Issues for Determination

Two issues arise, following the Lessee's objection to the Valuer General's 1 April 1996 Lessor's capital valuation of \$1,015,000. It should be noted that the revaluation represented an over 400% increase on the revaluation exercise carried out on 1 April 1991 of \$270,000, and should be contrasted with a similar valuation in 1986 of \$491,400.

The first issue was, as to that starting point, the gross Lessor's capital value. As will be explained in more detail later, Mr Cowper, the valuer for the Valuer General, calculated that at \$1,015,000, Mr Morice, a Registered Valuer, instructed by the Lessee disagreed and said that \$812,500 was the correct figure. Mr Foster, a Registered Valuer, engaged by the Lessor freehold owners concluded the correct figure was \$1,211,900.

The second issue related to the application to that starting point figure of an appropriate deduction, in accordance with the principles outlined by the Court of Appeal in its decision The Valuer General v Mangatu Incorporation 1997 3NZLR 641.

Mr Morice, on behalf of the Lessee, supported the proposition of a 40% deduction from his starting figure. The Valuer General, consistent with the

approach adopted by him in the Mangatu re-hearing before this Tribunal suggested 5% (or even no discount), and Mr Foster, on behalf of the Lessor, suggested initially 7½% and in closing was suggesting nil or minimal adjustment (page 18 15.0 of brief of evidence).

The end result of the differing approaches of the three different valuers thus, meant that the appropriate Lessor's capital valuation after adjustment suggested by each of the three parties was:

1. Lessee: \$812,500 less 40% viz \$487,500
2. Valuation New Zealand \$1,015,000 less 5% viz \$964,250
3. Lessor \$1,211,900 with at best no deduction or at worst 7½% viz \$1,121,000

This decision will accordingly be divided into two parts. The first part relates to establishing the correct Lessor's capital value without taking into account *Mangatu* principles, and the second part, the application of *Mangatu* principles to the established Lessor's capital value. From the outset, it is appreciated that the parties will by now, be aware, as a result of the earlier release of the Tribunal's decision on the re-hearing of certain aspects of the Mangatu valuation objection that this Tribunal **generally regarded the appropriate parameters** for the various types of land involved may be between 15% and a 5% deduction. The Tribunal sees the same general parameters as having indicative application here, but these will be explained in more detail later in the decision.

### General Valuation Principles

All three valuers in comprehensive and helpful written and oral evidence explained to the Tribunal their respective approaches.

Whilst there were minor differences of opinion as to the actual break out of the various classifications of land on the subject property, the major areas of difference arose in the following areas:

- a) Categorisation of land contour profile.
- b) Appropriate reduction for fertility.
- c) Possible effect of East Coast forestry grants to comparable sales information. This influence was later excluded by Mr Morice (Lessee valuer) and had not been a factor for the two other valuers.
- d) Relevance of sales comparisons with particular reference to the appropriate conclusions to be drawn from the sale of "Pakira" Station.
- e) Appropriate land values to be used for the various types of land classification. Mr Morice helpfully summarised the differing approach, page 15 of his supplementary brief as follows.

	Valuer	Easy Hills & Pastures	Easy Hills & Scrub & Fern	Medium Steep Hills & Scrub
	Morice	\$1,350	\$1,250	\$800 but in "AA" \$1,000
	Cowper	\$1,500	\$1,500	\$1,100
	Foster	\$1,500	\$1,500	\$1,500

### Sales Comparisons

#### Mr Cowper's Views

Dealing with each of those factors, Mr Cowper (for the Valuer General) and

Mr Foster who through counsel said that he "relied on Pakira" both saw this sale as having some relevance. That sale was in fact one of what Mr Cowper described as "four key sales".

He described Pakira as a better property than Houpoto, and noted that it had involved a sale in March 1994 of 4,076 hectares and after making adjustments for timber value, removal of buildings, the appropriate time adjustments, distance adjustment, and improvements reached an analysed land sale price of \$2,939,000 less bush and waste at 1,665 hectares @ \$75/ha, leaving a plantable 2,411 hectares @ \$1,219/ha.

He also referred to a 1995 sale of 4,004 hectares of a property 60 kilometres from Gisborne, Waipaoa to Evergreen and after the appropriate similar adjustments, concluded that it represented after time adjustment etc a plantable 3,803 hectares @ \$1,150/ha.

Also a sale Ihungia to Earnslaw in April 1996, involving 5,407 hectares - 120 kilometres from Gisborne after analysis and adjustment, a plantable 4,360 hectares @ \$1,032/ha.

He saw all those three properties as "better" properties than Houpoto.

For completeness, he also looked at a sale in April 1996, Tasman to Langbein with an adjusted plantable 156 hectares @ \$571/ha, noting that it was a "poorer property" than Houpoto.

Also Hermanson to Swayridee in August 1995, a property of 1,435 hectares, a distance of 118 kilometres from Gisborne, noting it to be a similar property but with poor access, and reached a conclusion of a plantable 704 hectares @ \$632/ha.

He noted that the average of those five sales worked out as a total of 2,287 hectares @ \$1,080/plantable hectare, and concluded that the appropriate

figure for the subject property was 2,341 hectares at \$905.00/plantable hectare. He carried out similar analyses of bush sales and concluded those averaged 942 hectares @ \$77/hectare and so concluded that for the subject property, involving 2,913 hectares, the appropriate figure was \$75 per hectare.

He appended to his evidence detailed calculations, as to how he reached the conclusions that he did.

#### Mr Foster's Views

Mr Foster adopted a not dissimilar approach to Mr Cowper. He noted generally the following comments:

1. Vexala (Hermanson) Swayridge he understood this to be a sale of seven separate properties, totalling 1,435 hectares for a total price of \$960,000, and concluded that after taking into account 646 hectares of non productive land valued at \$100 per hectare, the residual area of 749 hectares averaged \$982 per hectare.

He noted also that the Hoia Station sale at Hicks Bay, which Mr Cowper had not thought was appropriate to take into account, (sold in 1997) and he noted an estimated value of the grazeable area there at \$650 per hectare. He commented on Pakira Station, noting that it was "arguably the most isolated property in New Zealand, in that it lies 170 kilometres from Opotiki and 238 kilometres from Gisborne". He noted that it was of similar size to Houpoto, with a similar area developed and had increased substantially in value (i.e. approximately \$1,000,000) between 1986 and 1996. After appropriate adjustments, he analysed the producted area of the subject property at \$1,000 per plantable hectare. He agreed that the fertility was higher than Houpoto, but that "increased cartage costs would in my opinion negate any productive advantages enjoyed by Pakira".

He commented with respect to the Ihungia Station, that it sold in 1995 for approximately \$1,000 per hectare for the productive area, but noted that the sale prices "are possibly influenced by the possibility of obtaining funds to develop forestry under the East Coast Forestry Grant Scheme".

#### Mr Morice's Views

Mr Morice considered that Pakira was of little relevance. He described it as "somewhat of an enigma on the East Coast. It was exceptionally well run by the Hindmarsh family, and at the time of the sale was supporting some 17,600 stock units". He noted in an interesting aside that Jock Hindmarsh, who had been one of the owners of Pakira Station had written a recent book entitled "Come be a Pioneer", which had discussed generally the history of the East Cape and "describes the lease land in somewhat derogatory terms".

He noted that "Pakira Station sold in 1994, when the purchase of land afforestation was virtually at a peak. In the year ended June 1994, there were more sales for afforestation than any comparative period between 1991-1996, except for the June 1996 year".

He noted that despite the apparently favourable characteristics of the property, forestry interests did not get involved, and he considered the distance factor had put off potential buyers for afforestation.

By comparison with Houpoto, he noted that this was a pastoral to pastoral sale, and was not sought after for afforestation, and accordingly said "in my opinion, this sale is not comparable to the lease land, due to the date of the sale, the distance factor and the type of property involved". He noted also that the sale date was some two years prior to the applicable valuation dated in this case.

By contrast with the subject property, which he saw as "a relatively hard forestry block" he went on to suggest that "even if the sale was to be considered, then the price would need to be amended to reflect the relative strength of the pastoral market compared to the forestry market at the time".

Generally, therefore, Mr Morice considered that Mr Foster and Mr Cowper had paid undue emphasis on the Pakira sale. In particular, he was critical of a graph, which Mr Foster had produced and pointed out that the increase in value between 1991-1996 for Pakira was 262%, whereas the starting point figure for the lease land of \$1,211,900 (page 9 of his brief) represented a 449% increase. By comparison, he noted that his suggested starting point gross Lessor's capital valuation (before Mangatu principles applied) amounted to a 278% increase since 1991.

He also set out in some detail of pages 10 through 12 of his supplementary brief criticisms of other comparative data from the Hermanson and Ihungia sales.

### Summary of Differing Valuers' Approaches

For ease of comparison we have attempted to summarise the differing approach of the three valuers respectively to sales comparisons, conclusions as to plantable areas and bush related sales together with sales analysis adjustments and factors such as fertility, size etcetera.

#### Pakira Land Co Ltd to Pakira Station Ltd:

The plantable area adopted by Messrs Cowper and Foster was 2,411 ha @ \$1,219/ha and 2,131 ha @ \$1,000/ha respectively. Mr Morice did not consider this sale as it was a pastoral to pastoral sale.

#### Hermanson to Swayridee:

The plantable area adopted by Messrs Cowper and Foster was 714 ha @ \$632/ha and 749 ha @ \$982/ha respectively while Mr Morice used 1,000 ha (provided by the vendor), the nett effect of this resulting in a lower value per plantable ha (using the same criteria) but Mr Morice included time and land preparation adjustments in arriving at \$1,117/ha.

#### Ihunga to Earnslaw One:

The areas and values adopted by Messrs Cowper, Foster and Morice were 4,360ha @ \$1,032/ha; 4,832ha @ \$1,129/ha; 4,812ha @ \$1,112/ha respectively. The Tribunal considers 93% of the total property being plantable as adopted by Messrs Foster and Morice being very optimistic when the factors outlined by Mr Cowper are considered.

#### Waipaoa to Evergreen:

Messrs Cowper and Morice analysed areas and values at 3,803 ha @ \$1,150/ha and 3,643ha @ \$1,704/ha respectively (Mr Morice including time and land preparation factors). Mr Foster did not consider this sale.

#### Other Sales Relating to "Plantable Area":

Mr Cowper:

Tasman to Langbein - sale date 4/96: 156ha @ \$580 per plantable ha.

Mr Foster:

Hoia Station, part Matahiia Station, Ruangarehu Station, Cresswell, Rouse, and Parihaka Station properties were discussed but were all after the 4/96 leased land valuation date.

Mr Morice:

Fisher to Longbow sale date 5/96 being after the 4/96 leased land

valuation date, although he did qualify the use of this sale.

#### Bush Related Sales:

Mr Cowper and Mr Foster:

Swayridge - 637ha @ \$75/ha; 645ha non productive @ \$100/ha respectively.

Mr Cowper:

Pakira 1,605ha steep hill and bush @ \$75/ha; 60ha of waste @ \$50/ha.

Waipaoa 201ha bush and waste @ \$75/ha.

Ihungia 850ha bush riparian strips and slips @ \$75/ha (16.3% of total property).

Tasman 30ha very steep gullies @ \$50/ha.

Griffin to Larsen - sale date 11/94 523ha steep hill and bush @ \$85/ha (excluding timber).

Mr Morice did not analyse any sales for bush values, instead stating "I have attributed a value of \$50/ha to the non productive areas involved primarily steep hill and manuka together with protected forest and bush. This is consistent with the approach adopted in the 1986 and 1991 VNZ Valuation.

#### Sales Analysis

##### Adjustments:

##### Time:

Both Messrs Cowper and Morice used the published VNZ Grazing Farmland Price Index while Mr Foster made no time adjustments.

Mr Cowper on Swayridge plus 2.5%, Pakira plus 34.8% and Waipaoa plus 5%. Mr Morice adopted 0.87% compounding per month from the December 1994 to June 1996 sales period.

**Distance:**

Mr Cowper from analysis of *forestry sales* calculated a distance factor of 5% per 30kms above the base of the first 100kms from the port and handling facilities and then applied this on a relative basis to Houpoto. Swayridge (including access) minus 5.17%; Pakira plus 4.99%, Waipaoa minus 20%, Ihungia minus 10%; Tasman minus 4.86%.

Mr Foster used *forest cartage costs* to establish a distance factor relative to Houpoto (being a distance of 115kms to Kawerau Mill (although he quoted 89kms); Pakira 0.625; Ihungia 0.8; Swayridge 0.7; Hoia 0.65.

Mr Morice on a *forest cartage cost* basis calculated \$14.07 per tonne for 100kms; \$19.67 per tonne for 150kms; \$25.27 per tonne for 200kms.

**Fertility:**

Mr Cowper:

In his Supplementary Brief, from the Hermanson sale as it related to Houpoto plantable areas adopted a 10% reduction for "easier farmed" and 5% reduction for "steeper country".

Mr Foster:

Adopted the following basis - Pakira and Ihungia = 1.0; Houpoto and Swayridge = 0.7.

Mr Morice:

As per his chart "U"

Steep hauler: Swayridge 10%; Waipaoa 15.75%; Ihungia and Fisher 20% reduction.

Medium and easy skidder: Swayridge and Fisher 20% reduction.

Mr Morice brought the Tribunal's attention to the Fletcher Challenge Forests Ltd v Valuer General (Tahorakuri) case relating to FRI

fertility growth trials where the Tribunal adopted a 20% reduction, the measurement being between highly productive fat lamb pastoral property and virgin land i.e. not previously farmed. Mr Morice adopted this basis for his analysis relating to fertility adjustments.

Mr Willis, a forestry consultant, presented evidence indicating that higher fertility may not give the **h i g h e s t** percentage yield return i.e. lower fertility often produces better quality trees and considered this to be the case between Ihungia and Houpoto.

**Size:**

Mr Cowper indicated a 6.8% reduction for the Tasman to Langbein sale.

Mr Morice, from an analysis of 36 pastoral to afforestation sales on the East Coast during 1995-96 adopted a 10% reduction for the Addison, Lockwood and Fisher sales as these were below 600ha (land values tended to level out above 600ha).

**Comparison of Values Adopted for Houpoto:**

1/4/1996 Values in 1976 Condition:

Mr Cowper:

Total planted area 2,341 ha at an average land value of \$920.37/ha and a total average of \$452.03/ha. Lessor's improvements average \$339.58/plantable ha and \$75.48/non plantable ha.

Mr Foster:

Total planted area 2,357ha at an average land value of \$1,023.52/ha, and a total average of \$499.98/ha. Lessor's improvements average \$423.19/plantable ha and

\$88.90/non plantable ha.

Mr Morice:

Total planted area 2,341 ha at an average land value of \$716.83/ha and a total average of \$353.97/ha. Lessor's improvement average \$279.59/plantable ha and \$50/non plantable ha.

**Summary of 1996 Values:**

Mr Cowper Mr Foster Mr Morice

Lessee's Improvements:	1,405,000	642,000	642,000
Lessee's "land development":	<u>1,360,000</u>	<u>1,415,000</u>	<u>1,047,000</u>
Total Lessee's Interest:	2,765,000	2,057,000	1,689,000
Lessor's Capital Value:	<u>1,015,000</u>	<u>1,211,900</u>	<u>812,500</u>
Current Market Value <small>(excluding trees &amp; timber)</small>	<u>3,780,000</u>	<u>3,268,900</u>	<u>2,501,000</u>

**The Tribunal's Conclusions:**

Generally speaking the Tribunal concludes that the overall approach of Mr Cowper is preferred. In particular we agree with his conclusions with regard to comparison with the Pakira sale and whilst acknowledging that it was a pastoral to pastoral sale and agree it is possible that the sale price could have gone even higher had forestry interests been interested although in fact on the evidence there was no such interest, it seems reasonable to us to suppose that the predominant reason for that lack of interest by forestry developers was the distance factor. That sale close in time and located on the Bay of Plenty side of the Cape for a comparable size property does have some relevance although we agree that from a fertility point of view the Pakira land is much better generally than the subject land.

**Reduction to Account for Restrictions on Alienability Imposed by the Te Ture Whenua Maori Act 1993 Application of Mangatu Principles:**

As indicated earlier Mr Cowper and Mr Foster adopted a similar approach

but Mr Morice proceeded on the basis of a much higher deduction.

Mr Cowper:

In his original Brief he indicated a 5% discount which reduced the Lessor's capital value to \$964,000. In the Closing Submissions of the Valuer General a discount of 5% was restated but it was also indicated that there was perhaps no need for any discount.

Mr Foster:

In his original Brief indicated a 7.50% discount which reduced the Lessor's capital value to \$1,120,000. In his Supplementary Brief he suggested "at or near freehold values" and in the Closing Submissions for the Lessor "no adjustment or minimal adjustment" required.

Mr Morice:

In his original Brief indicated a 40% discount which reduced the Lessor's capital value to \$450,000 (based on a Lessor's capital value of \$750,000). In the Closing Submissions for the Lessee the figure was amended, based on 40% discount to \$487,500 (based on a Lessor's capital value of \$812,500).

**The Tribunal's Decision:**

The Tribunal does not intend to go over all the very detailed summary of Maori Land Court decisions over the last few years, which were canvassed extensively in our decision on the Mangatu rehearing (LVT Decision 29.12.98). Mr Cowper produced for this hearing the same helpful analysis of sale of Maori freehold land he had produced in the Mangatu rehearing. That is set out below.

**Sale of Maori Freehold Land to Non-Preferred Alienee**

1	Kawaha3E	\$200000	Various	Not clear, Status Changed
2	TeKaha50A	\$117,500	\$116,000	Yes
3	Utuhina3K1	\$82,000	\$82,000 (GV) \$89,000 (RV)	Yes
4	OalaaraF2A Lot25	\$55,000, but increased by Court to \$55,800	\$55,800	No
5	PoroporoA16	\$20,000	\$17,999.67	No/Objection
6	Waimal	\$11,000	\$11,000	No/Status changed
7	Waimana 266A2	\$160,000	\$130,000	Not Stated
8	Waipahihi C49	\$85,000	\$78,000	No

Suffice to say that this Tribunal is satisfied, for the same reasons as were explained in our Mangatu decision, that the evidence exists that sales are still being permitted by the Maori Land Court, and some status changes are occurring.

As we indicated in our Mangatu rehearing decision, we were very conscious, as we were dealing with both that matter and this matter that similar considerations had application, albeit that for the Maori interests involved, they were in opposing directions.

It seems to us important that we try to maintain some consistency, on the basis that a valuation exercise should be done as objectively as possible, and not be influenced by factors of sympathy for the practical ramifications of the extended discount, if any, allowed.

We are, it has to be said however, very conscious of the fact that the Maori interests involved under the general umbrella of the Lessor's trustee

holding, expressed both through evidence and submissions considerable concern about the implications of what was being argued against them by the Lessee's, utilising the precious historical information that they substantially had furnished from their own resources. Mr Foster put it most pungently in his evidence when he said "I do not believe that Parliament would pass an Act protecting the status of Maori land, in the knowledge that the legislation could be used as a club to beat the owners with".

He noted that in his view, "anyone contemplating the purchase of Houputo would do so in the certain knowledge that they were only purchasing a cash flow for the next 79 years. They could not receive Turangawaewae until after the expiry of the lease." He went on to say "the status of the land would be of little

importance to them. The prime consideration would be the guaranteed rental, reviewed regularly, being a return approximately four times that which could be obtained from pastoral farming, plus the prospect of capital gain".

The Tribunal of course, at the end of the day, while it needs to and must have regard to the implications of any valuation methodology, simply notes that whatever the deemed intention of Parliament may have been, our task is to try and consistently apply the principles of the Mangatu decision as we understand them to be defined by the Court of Appeal. As was the case, particularly with the Awapuni land in the Mangatu decision, it was clear from the evidence before us that this particular piece of land, the subject of this objection has such deep and historical spiritual ties and other ties with the people of Houpoto, that the presumption of sale implicit in the legislation is substantially a legal fiction.

We are very conscious of the provisions of the preamble to Te Tun Whenua Maori Act pointed out by the Court of Appeal as requiring recognition namely "that land is a Taonga Tuku Iho of special significance to Maori people and for that reason to promote the retention of that land in the hands of its owners, their Whanau and their Hapu ...". We are also conscious that according to to kanga Maori, relationships between land and people are regarded in an entirely different way from any concept of land being a disposable commodity and that the world view of Maori as E T Durie in his article "custom law" in the Victoria University Wellington Law Review Volume 24 said "in this world view, Maori were the land. It was part of them by direct consent of the earth mother. Land or Whenua is represented in the Whenua or placenta of women. Maori are born out of the

Whenua". And further "the right to the land in an area is accordingly based on that understanding". From what was said to the Tribunal by representatives of the Maori owners we accept that it is hard for them to imagine how they could ever get to the situation of permanently alienating the land by way of a transfer out from their ownership of their present freehold interest.

However the Tribunal accepts the general proposition advanced on behalf of the Valuer General that the following process needs to be carried out:

- a) Assume an agreement i.e. vendor, purchaser, and agreed price and then;
- b) Assuming confirmation, then it is a matter of considering what factors would influence the Maori Land Court to see whether they would effect price then;
- c) Factors such as the policy of keeping Maori land in Maori hands, adequacy of consideration and the interests of the preferred class will obviously be taken into account. It follows that the purchaser would probably have to recognise that a person not in the preferred class could face serious legal restraints in obtaining confirmation for a future onward confirmation for disposition, so that after confirmation the purchaser's interest could be subject to the same constraints, so that any such hypothetical purchaser would face difficulties with relation to an application for change of status, particularly if the purchaser was from outside the preferred class.

However, we accept that it is not a question of whether or not the hypothetical sale would or would not be confirmed, but what, if any, factors having a bearing in a Maori Land

Court decision on such a hypothetical transaction would be reflected in the price likely to be negotiated.

As we said in the Mangatu re-hearing, the evidence before us does not suggest that a discount is a likely outcome, except in a close family type transaction. In this regard, we see (as we said in Mangatu) the Ngatarawa sale as having considerable relevance, and agree that it is good evidence as an example of a public company with an obligation to shareholders being prepared to pay open market value to secure Maori freehold land.

For the same reasons as we explained in the Mangatu re-hearing, we do not see the Christchurch Racecourse Case (where sale was impossible) or the Wanganui Racecourse Case (sale possible only with a consent of the Minister, but only for racecourse purposes) as having direct relevance. However, we agree with the Valuer General that some discount is appropriate, to take into account that approval would have to be obtained from the Maori Land Court, and that might reflect a reduction of price because of possible on-selling difficulties. The Valuer General, as in Mangatu, suggests 5%. We consider that figure a little on the high side in this particular case.

There are two significant factors that in our view have applicatoin in this case that differentiate it further from the deduction we indicated we thought was appropriate for the Mangamaia Block in our Mangatu decision. These relate to:

1. Differing ownership structure; and
2. The commercial history of the land in question.

Save to indicate that combined with the other factors already mentioned those matters call for a further 1/2% reduction (from Mangamaia) to 3'h%



we are unwilling to go any further and allocate specific fractions to each factor.

### 1. Differing Ownership Structure:

Having already indicated that we accept the two step process advanced on behalf of the Valuer General, so that there is firstly an assumption of an agreement regardless of theoretical or actual quorum difficulties and then move to consider what factors would influence the Maori Land Court to the extent that they would effect price, we also accept that a potential factor that the assumed willing buyer would take into account would be the potential problem of getting approval to a further on sale at some future time. It is at this point that we consider comparison of the decision making ability and processes of the ownership entity has some relevance. In that regard, we compare the still relatively cumbersome voting structure for Mangatu (with relation to the Mangamaia Block) with the trust entity ownership of Houpoto Te Pua which simply requires not less than 50 beneficial owners present in person at a general meeting to constitute a quorum i.e. voting is not according to shareholding. Put another way, the trustees of Houpoto when dealing with the Maori Land Court generally seek both its guidance and endorsement of the management of its affairs and are accountable, but this should be contrasted with the Mangatu situation which is an incorporation subject to a specific Act of Parliament and requires a 75% shareholding vote.

### 2. Commercial History:

The practical reality is that for perfectly sound commercial reasons the owners of Houpoto have already agreed on a commercial basis to practically distance themselves from the land for a very lengthy period of time in terms of general utilisation rights. Whilst the lease does provide for obligations on the Lessee

regarding employment protection of historical sites etcetera, the substantial exclusive use of the land for a long period of time is for growing exotic trees. Few of the people alive at the time of the commencement of the lease will be alive at the time of its determination. The practical reality would seem to be that in light of the obligations to maintain the land, if only to ensure effective replanting, probably over three growing cycles on the land, and leave it fit for further replanting at the end of the lease recognises a commitment to a substantial commercial enterprise with a non-Maori party, hopefully to the mutual benefit of both. Therefore, despite the undeniable longstanding deep-seated spiritual and historical ties of the Houpoto people with the land in question and the unlikelihood that they would ever divest themselves of the freehold permanently, nevertheless commercial considerations have predominated. For those reasons but primarily because this land already has a substantial commercial flavour and the lease reflects an income stream commercial proposition, we consider that the appropriate discount is 3½% off the Valuation New Zealand figure of \$1,015,000 viz \$979,475.

For the Tribunal  
A N MacLean  
*(District Court Judge)*

ii) IN THE COURT OF APPEAL OF NEW ZEALAND

CA 6/98

BETWEEN BOAT PARK LIMITED and  
LICAKA HOLDINGS LIMITED  
First Appellant

AND ONE TREE POINT LIMITED  
Second Appellant

AND B H W HUTCHINSON AND D C FINDLAY  
Respondent

Coram: Henry J, Thomas J, Tipping J

Hearing: 27 August 1998

Counsel: R J Asher QC for First and Second Appellant  
J R F Fardell and G R Nicholl for Respondent

Judgement: 2 November 1998

## JUDGEMENT OF THE COURT DELIVERED BY THOMAS J

**The Question in Issue.**

The question in issue in this proceeding is whether the vendors to an agreement for sale and purchase of a block of land are in breach of contract in declining to accept a valuation (or valuations) submitted to them by the purchaser pursuant to a clause in the agreement.

In terms of clause 16 of the agreement, the vendors agreed to advance to the purchaser \$500,000 to be secured by a registered second mortgage. Subclause 16.1(g) provides that the sum secured under the first and second mortgage "...shall not exceed 75% of a registered valuer's valuation of the property". The valuation is to be obtained "by and at the expense of the purchaser". The vendors rejected the valuation (or valuations) submitted to the purchaser on the ground that it was not a proper valuation.

The more particular question, therefore, is whether the valuation (or valuations) submitted by the purchaser was a valuation within the meaning of the phrase

"registered valuer's valuation of the property" for the purposes of that subclause.

**The Agreement in Clause 16**

Under an agreement for sale and purchase dated 20 October 1995, Messrs Hutchinson and Findlay, the respondents in this appeal, agreed to sell, and Boat Park Limited and Licaka Holdings Limited, the first appellant, as trustees for a company to be formed, agreed to purchase, a block of land containing 49.0098 hectares in two contiguous titles situated at One Tree Point north of Whangarei. Most of the property is zoned Residential. Within the centre of the Residential zone is a ringed area zoned Commercial A. Another strip of land set back from the road frontage is zoned Rural B.

The purchase price for the land is \$1,050,000, including GST. The deposit is \$50,000, to be paid on the agreement becoming unconditional. The agreement is subject to the purchaser obtaining sufficient and suitable first mortgage finance by 21

December 1995. It is also subject to the Whangarei District Council approving a change of zoning in respect of the land zoned Rural B by 21 November 1995 and approving a subdivision plan by 21 December 1995 in terms acceptable to the purchaser. The balance of the purchase price is to be paid, as to \$500,000 in accordance with clause 16 of the agreement, and as to the remaining \$500,000 in one sum in cash on the possession date. Both the settlement date and possession date are 14 January 1996.

The trustees duly formed a company, One Tree Point Ltd, which is the second appellant.

Clause 16 relates to "vendor finance". It is set out in full in the judgement of the Court below and need not be repeated in toto. Subclause 16.1, under the subheading, "Priority", requires the vendor to advance to the purchaser the sum of \$500,000 for a term of five years from the possession date, such sum to carry interest at 7.5 per cent per annum for the first two years and

interest at a bank rate on comparable securities for the last three years. The security is to be a registered second mortgage over the property. Paragraph (g) is the pertinent provision. It reads as follows:

The sums secured under the first and second mortgage including any priority under Section 80A of the Property Law Act shall not exceed 75% of a registered valuer's valuation of the property less an amount equivalent to the GST on such sum. Such valuation to be obtained by and at the expense of the Purchaser. The Purchaser shall have the right at all times to refinance or vary the existing first mortgage subject to the requirements in this subclause and the Vendor shall at the cost of the Purchaser execute all necessary documents to facilitate such refinancing.

#### **Background Facts.**

One Tree Point's solicitors purported to submit a valuation pursuant to subclause 16.1 (g) to Messrs Hutchinson and Findlay's solicitors under cover of a letter dated 28 February 1996. The valuation had been completed by a registered valuer, Mr J F Kerr. It consisted of a letter to a Mr Tucker dated 28 November 1995 to which was annexed a valuation report dated 20 November 1995.

The valuation report of 20 November 1995 is addressed to One Tree Point's solicitors. The purpose of the valuation is stated to be to assess the "current market value" of the areas zoned Residential, Rural B, and Commercial on a plan which is attached to the report, and to estimate the "total current market value" of the property, not as at the date of the report, 20 November 1995, but as at 31 December 1996. It recites that the prospective owners have had preliminary discussions with the chief planner of the Whangarei District

Council and, "with their verbal blessing intend to apply for total residential subdivision over the total area as well as maintaining the small commercial zoning". It is noted that a "scheme plan and form application" is to be made within the next three months. Mr Kerr confirms that the property is adequate security for normal residential lending criteria based on his "projected valuation". Having assessed the estimated land value for the residential, rural and commercial zoning, he arrives at a total gross current market value "on completion of subdivision approval, roading, surveying and issue of compliance certificate which is anticipated will be by the end of 1996" at an estimated total current market value of \$19,210,000.

The letter dated 28 November which annexed this valuation report also purported to submit the "current market value of the zoned residential land" as at 28 November 1995 "with the approved residential scheme of subdivision plan as attached to the report". No details are provided, but Mr Kerr states that, on the basis of a net number of sections of approximately 292, the land has an estimated potential gross realisation of \$16.9million. He fixes development costs and profit at \$13.3million, leaving a balance of \$3.6million. A reasonable current market value of the land, he states, with the current zoning and "approved residential scheme plan" would be in the vicinity of \$3.5 million.

Messrs Hutchinson and Findlay's solicitors replied by facsimile the following day. Not unexpectedly, they expressed themselves as being somewhat surprised at the valuation which had been submitted, particularly as it was grossly at variance with the valuation obtained by their clients the previous year and well in excess of the purchase price in the agreement for sale and purchase.

The solicitors indicated that the valuation required by them and anticipated by the agreement would be one which set out the current market value of the property as at the date of settlement, not one incorporating some perceived benefits which may accrue to the property in the future. They advised that they were sending a copy of the valuation to another registered valuer, Mr Nicholls, with the request that he confirm his view of the current market value.

Unbeknown to Messrs Hutchinson and Findlay, or their solicitors, Mr Kerr had completed a valuation for a nominee trustee company managed by a law firm in Whangarei on 6 February 1996. The purpose of that valuation was stated to be to assess the current market value of the total property to be used as security and collateral for the client's financial application to the trustee company. In this valuation Mr Kerr assessed the current market value to be in the vicinity of \$1,135,000, exclusive of GST.

Mr Nicholls' valuation is dated 29 February 1996. It is an updated report of a valuation provided by him to Mr Hutchinson in March 1995. Mr Nicholls assessed the current market value of the property to be \$1,000,000. He considered this figure to be a realistic assessment. He was aware that the block had been on the market for some time and expressed the view that the market had been fully tested. Mr Nicholls had some pointed comments to make about Mr Kerr's valuation. After describing the methodology of the valuation he expressed the view that it would be most unwise and imprudent to lend to normal lending criteria on his valuation of \$3.6million. He noted that, while the subdivision plan of the residential land might be approved by the District Council, intensive subdivision of the Rural B land could be difficult. There were abundant residential sites to sell before

"moving" to this land, Mr Kerr's valuation, he said, took no account of the demand and spread of sales for the sections in this particular locality having regard to section sales over the previous years. He concluded that 300 odd sections would take many years to sell and that Mr Kerr was remiss in not applying a discount factor to allow for this reality. Mr Nicholls added that, in fact, discounting a subdivision by 20 years generally results in a meaningless answer.

Extended negotiations followed between the parties. In general terms both parties wished to complete settlement with One Tree Point holding to the view that the original valuation of Mr Kerr complied with clause 16.1(g) and Messrs Hutchinson and Findlay's solicitors remaining adamant that it did not. The settlement date was postponed.

On 8 March 1996, One Tree Point's solicitors passed on to Messrs Hutchinson and Findlay's solicitors a letter from the Whangarei District Council confirming that the first stage of the company's proposed subdivision conformed to the subdivision standards of the Residential A zone and had been approved in principle. The Council expected to issue formal approval incorporating its conditions within the next few weeks.

During the course of the negotiations One Tree Point's solicitors submitted a further updated valuation report by Mr Kerr dated 19 March 1996. This valuation purported to assess the current market value of the land zoned Residential in accordance with an attached plan which had been approved in principle by the Whangarei District Council, the current market value of the balance of the land as at 14 March 1996, and to update development administration and legal costs of the first stage of the subdivision. The total current market

value was assessed at \$3,236,000.

Messrs Findlay and Hutchinson's solicitors continued to reject the valuation. By letter dated 20 March they asserted that Mr Kerr's reports overlooked the clear intention of the parties that the valuation to be supplied was to establish the market value of the land. The material supplied, they said, was inadequate to establish that value. He had not established that the value represented the market value as he did not appear to have taken account of the demand for or likely delay in disposing of the properties, he had made no allowance for the risks associated with subdivision, his valuation did not seem to be based upon any significant market research, he did not include any analysis of the direct or indirect costs of subdivision, and he did not even proclaim the feasibility of the subdivision. It followed, the solicitors said, that until One Tree Point had met its contractual obligation to establish the market value, Messrs Hutchinson and Findlay were not in a position to settle or to demand settlement.

One Tree Point's solicitors responded by letter dated 21 March 1996. They claimed that the intention of the parties had been set out in subclause 16.1(g) and no reference had been made to market value in that subclause. If the parties required the valuation to be market value then, they said, the parties

would have inserted those words in the contract. But, in any event, they asserted, the valuation had been prepared on the basis of market value. Later in the letter they reiterated that their client did not have a contractual obligation to establish the market value, but again added that it had, in

fact, provided that value.

During the course of further exchanges between the solicitors, One Tree Point's solicitors tendered yet a further valuation addressed to them by another registered valuer, Mr Burgess. Mr Burgess expressed the view that, based on a proposed staged subdivision creating a maximum of 400 residential and commercial sections together with two rural residential blocks, the property had a current market value of \$2,400,000. Later in the report he stated that his valuation had been assessed on the premise that a residential subdivision would be undertaken in the near future, and he noted that approval had been gained from the Whangarei District Council, subject to the District Land Registrar's approval on right of way access to some sections, for a 48 lot development. He concluded that the valuation arrived at fairly reflected the current market value of the property but with the qualification that it was "subject to the proposed residential subdivisions proceeding as outlined".

It may be helpful to recapitulate at this point the various valuations relating to the property which had been completed:

	<u>Valuer</u>	<u>Date</u>	<u>Valuation</u>
had been made	J F Kerr	20 November 1995	\$19,210,000 (gross)
to market value	J F Kerr	28 November 1995	3,500,000
in that	J F Kerr	6 February 1996	1,135,000*
subclause. If the	A C Nicholls	29 February 1996	1,000,000
parties required	J F Kerr (update)	19 March 1996	3,236,000
the valuation to	W A F Burgess	10 April 1996	2,400,000
be market value			
then, they said,			

\*Not available to Messrs Hutchinson and Findlay

After further negotiations the parties agreed to complete settlement on 17 May 1996 without prejudice to their rights under the agreement. One Tree Point issued proceedings against Messrs Hutchinson and Findlay alleging that, as a consequence of having to arrange alternative finance, they had lost the first mortgage

finance which had previously been arranged and suffered a number of particular losses. They claimed judgment in the sum of \$523,382.24.

The proceeding was heard before Laurenson J between 11 and 18 November last year. Extensive valuation evidence was adduced by both parties, although Mr Kerr was not called to give evidence. The learned Judge reserved his decision and delivered judgment on 26 November 1997. He rejected One Tree Point's claim and entered judgment for Messrs Hutchinson and Findlay.

### The Judgment in the Court Below.

Laurenson J concluded that the valuations proffered by One Tree Point did not comply with the terms of subclause 16.1(g). He held that the intention of the parties when they agreed to the inclusion of the subclause was clear. It was to provide the vendor with protection for the second mortgage by limiting the extend of advances under the first and second mortgages against the property. The Judge observed that, when a mortgagee lends money on a mortgage, the ultimate concern to be satisfied is that there will be a sufficient margin of security to ensure that the mortgage advanced, plus costs, is recovered in the event of a mortgagee sale following default by the mortgagor. Consideration of this factor, he added, necessarily involves an acceptance that default could occur at any time.

The learned Judge referred to the purchase price paid for the property and reviewed the various valuations. He concluded that, in reality and practice, a very distinct difference exists between the value of property for mortgage lending purposes and its value assessed on the basis of a hypothetical subdivisional development. Whatever might be the case in theory the two values do not

coincide in practice.

Stated simply, he said, a valuation for mortgage lending purposes seeks to provide an assessment of what the value of the property will achieve in the event of a forced sale. On the other hand, valuations based on a hypothetical subdivision development seek to predict what will be received in the future following a development and allowing for development costs, profit and risk, and discounting back to present value. The Judge then drew a further distinction. He claimed that it is necessary when assessing the value of land prior to subdivision to calculate the current market value of the land taking into account that it has subdivisional potential. In other words it is the value which a potential subdivider will pay for the raw land. On the other hand, he said, the hypothetical subdivisional basis starts by taking the value of the raw land which would be paid by a subdivider and then grafting onto that value a calculation designed to show what ultimately would be achieved. Such an approach is designed to determine the value of what a land owner has been deprived of, namely, the opportunity to achieve the subdivisional potential. Thus, the Judge held, the purpose of the valuation is quite different from the purpose sought to be achieved by valuing the land prior to subdivision when it is the land in that state which is being assessed for the purpose of present mortgage lending.

Accepting that in practice there is a difference between a valuation for mortgage purposes and a valuation based on a hypothetical subdivision or calculation, Laurenson J expressed little doubt that the valuation intended by subclause 16.1(g) was a valuation for mortgage lending purposes, that is, a calculation of a value which the land would be likely to produce at any time during the currency of a mortgage in the event of a mortgagee sale. This

conclusion was, reinforced, in the Judge's view, when regard is had to the price paid under the agreement for sale and purchase, the obligations of the vendors as trustees, and the financial circumstances of One Tree Point. Such considerations necessarily imply that the valuation referred to in the subclause was a valuation for mortgage lending purposes. The Judge pointed out that, if this was not the case, then, in effect, One Tree Point was asking Messrs Hutchinson and Findlay to accept a significant degree of risk in advancing \$500,000; a risk which no normal lender in the circumstances would ever accept. The value suggested in the valuations, he said, was never going to materialise until the subdivision and development was completed and, in his view, it is quite specious to say that overnight the "raw" value of the property had increased significantly beyond the sale price simply because a scheme plan had been approved and there was a subdivider ready and willing to carry out the development.

Thus, the Judge concluded that the intention of the parties in agreeing to subclause 16.1 (g) was that the valuation was to be supplied for mortgage lending purposes and the valuations submitted by Messrs Kerr and Burgess could not be said to be valuations for that purpose. One Tree Point and therefore failed to provide a "registered valuer's valuation of the property" in terms of the subclause. As a result, Messrs Hutchinson and Findlay were not in breach of the contract in rejecting the valuations. Judgment was entered for them.

### Counsel's submissions

Mr Asher, who appeared for One Tree Point, submitted that the Judge appeared to have decided that the valuation had to be acceptable to the vendors. Such a subjective approach was in error. Nor was the Judge correct in implying a term or adding the words "suitable for mortgage lending

purposes". The requirements of subclause 16.1(g) are unambiguous, and should be applied without reference to the factual matrix. Assuming, however, that it was legitimate for the Judge to go behind the wording of the valuations and consider their substance, Mr Asher contended that they were nevertheless valuations for mortgage lending purposes.

Mr Asher strongly refuted the Judge's suggestion that a valuation based on the notional subdivisional basis was not appropriate for mortgage lending purposes. There were, he claimed, no comparable sales of blocks of land with subdivisional potential in the area, so that the comparable sales approach to the valuation could not be used. He pointed out that all valuers involved used, at least as an essential element of their consideration, the hypothetical subdivision method. He suggested that it was the only sensible method or approach when the land was subdivisible and there was a market for the subdivided lots. Where the valuers differed markedly, he argued, was in their assessment of that market. The real difference between them was the extent to which they used the notional subdivisional approach to the various blocks of land and the "inputs" applied by them in the course of carrying out that exercise.

Mr Fardell, who appeared for Messrs Hutchinson and Findlay, sought to uphold the judgment in the Court below, essentially for the reasons given by Laurenson J. He argued that the purpose of subclause 16.1(g) was to limit the amount One Tree Point could borrow so as to provide a minimum equity level of security for Messrs Hutchinson and Findlay when advancing funds secured by way of second mortgage. For this reason the intention of the parties was that the valuation supplied by One Tree Point was to be a current market value and

thus able to be relied upon for mortgage lending purposes to provide security to Messrs Hutchinson and Findlay. The learned Judge had correctly held that subclause 16.1(g) required to market valuation of the property suitable for mortgage lending purposes.

Counsel's arguments can be considered, in addressing the question in issue, by first considering Mr Asher's argument that One Tree Point literally complied with subclause 16.1 (g), then examining the learned Judge's views relating to the valuation of the property in the course of considering the correct valuation approach and, finally, applying that approach to the facts of this case.

#### Literal compliance?

We reject, as did Laurenson J, the submission that One Tree Point complied with subclause 16.1(g) simply because it tendered to Messrs Hutchinson and Findlay a valuation which was in the plain terms of that clause "a registered valuer's valuation of the property ... obtained by and at the expense of the purchaser".

Such an argument is based on an outdated approach to contractual interpretation. It is worth reiterating in full what Lord Hoffmann felt it necessary to spell out when delivering the judgment of the majority in the recent decision of the House of Lords in *Investors Compensation Scheme Ltd and Others v West Bromwich Building Society and Others* [1988] 1 All ER 98, at 114-115. The learned Law Lord stated:

My Lords, ... I think I should preface my explanation of my reasons with some general remarks about the principles by which contractual documents are nowadays construed. I do not think that the fundamental change which has overtaken this branch of the law, particularly as a result

of the speeches of Lord Wilberforce in *Prenn v Simmonds* [1971] 3 All ER 237 at 240-242, [1971] 1 WLR 1381 at 1384-1386 and *Reardon Smith Line Ltd v Hansen-Tangen, Hansen-Tangen v Sanko Steamship Co* [1976] 3 All ER 570, [1976] 1 WLR 989, is always sufficiently appreciated. The result has been, subject to one important exception, to assimilate the way in which such documents are interpreted by judges to the common sense principles by which any serious utterance would be interpreted in ordinary life. Almost all the old intellectual baggage of 'legal' interpretation has been discarded. The principles may be summarised as follows.

- (1) Interpretation is the ascertainment of the meaning which the document would convey to a reasonable person having all the background knowledge which would reasonably have been available to the parties in the situation in which they were at the time of the contract.
- (2) The background was famously referred to by Lord Wilberforce as the 'matrix of fact', but this phrase is, if anything, an understated description of what the background may include. Subject to the requirement that it should have been reasonably available to the parties and to the exception to be mentioned next, it includes absolutely anything which would have affected the way in which the language of the document would have been understood by a reasonable man.
- (3) The law excludes from the

admissible background the previous negotiations of the parties and their declarations of subjective intent. They are admissible only in an action for rectification. The law makes this distinction for reasons of practical policy and, in this respect only, legal interpretation differs from the way we would interpret utterances in ordinary life. The boundaries of this exception are in some respects unclear. But this is not the occasion on which to explore them.

- (4) The meaning which a document (or any other utterance) would convey to a reasonable man is not the same thing as the meaning of its words. The meaning of words is a matter of dictionaries and grammars; the meaning of the document is what the parties using those words against the relevant background would reasonably have been understood to mean. The background may not merely enable the reasonable man to choose between the possible meanings of words which are ambiguous but even (as occasionally happens in ordinary life) to conclude that the parties must, for whatever reason, have used the wrong words or syntax (see *Mannai Investment Co Ltd v Eagle Star Life Assurance Co Ltd* [1997] 3 All ER 352, [1997] 2 WLR 945.

- (5) The 'rule' that words should be given their 'natural and ordinary meaning' reflects the commonsense proposition that we do not easily accept that people

have made linguistic mistakes, particularly in formal documents. On the other hand, if one would nevertheless conclude from the background that something must have gone wrong with the language, the law does not require judges to attribute to the parties an intention which they plainly could not have had. Lord Diplock made this point more vigorously when he said in *Antaios Cia Naviera SA v Salen Rederierna AB*, *The Antaios* [1984] 3 All ER 229 at 233, [1985] AC 191 at 201:

'... if detailed semantic and syntactical analysis of words in a commercial contract is going to lead to a conclusion that flouts business common sense, it must be made to yield to business common sense.'

Applying these principles, we do not consider that the parties intended that the word "valuation" would include any document simply because it purported to be a valuation prepared by a registered valuer. Mr Asher himself accepted that, by "valuation", something that is recognisable as a *bona fide* commercial attempt to value the property is contemplated. We accept that it must be prepared in good faith. But more is required. In our view the valuation contemplated by the clause must be a proper valuation in the sense that it has been prepared by a registered valuer in accordance with basic valuation principles and basic valuation methods. (See the seminal valuation text by Rodney L Jefferies, *Urban Valuation in New Zealand* (Vol 1, 2nd Ed, 1991), esp. Chaps. 5 and 6). So, too, it would not be acceptable as a valuation if it disclosed patent and material errors in the

calculations contained in the valuer's report. By and large, it can also be assumed that the parties intended the valuation to comply with the requirements of the New Zealand Institute of Valuers Valuation Standards. Paragraph 7.4 of Standard 4 requires the valuer, in reporting a market value estimate for loan security, mortgages, and debentures, to -

7.4.1 Completely and clearly set forth the valuation in the valuation report in a manner that will not be misleading.

7.4.2 Provide sufficient information to permit those who read and rely on the report to fully understand the data, reasoning, analysis and conclusions underlying the Valuer's findings, opinions and conclusions.

7.4.3 State any assumptions or limiting conditions upon which the valuation is based.

7.4.7 Fully and completely explain the valuation bases applied and the reasons for their applications and conclusions.

Consequently, we are satisfied that subclause 16.1(g) is not met by the production of a report simply because it purports to be a valuation. Literal compliance of this kind is not enough. Applying the principles of contractual interpretation spelt out by Lord Hoffmann, the "valuation" in subclause 16.1(g) cannot be construed to mean anything less than a valuation prepared in accordance with basic valuation principles and basic valuation methods.

### The Correct Approach...

While we are able to agree with the general thrust of Laurensen J's

decision, we are not able to accept certain aspects of his judgment which appear to depart from valuation orthodoxy. The first is the distinction which he draws between a valuation of market value for mortgage lending purposes and a valuation of market value based on a hypothetical subdivision development. The second aspect is the notion that the hypothetical subdivision approach cannot be utilised when valuing land for "mortgage lending purposes".

In the absence of a legislative direction or qualifying instruction to the contrary, the objective of a valuation is to assess the market value of the subject property at the effective date. The market value, or fair market value, is arrived at by determining what price the property would sell for on the open market under the normal conditions applicable in the market for the type and location of the property being valued. (See Jefferies, *supra*, 2-2). Fundamental to this task is the willing seller/willing buyer principle. Thus, "market value" is defined in the New Zealand Institute of Valuers, Valuation Standard 1, in these terms:

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

It follows that there cannot be a market value for one purpose and a market value for another purpose. The price for which the willing seller would sell the property to a willing but not overanxious purchaser cannot vary depending on the purpose of the valuation. Market value remains the same irrespective whether the valuation is required for mortgage lending purposes or for selling purposes or

for buying purposes. Recognition of the mortgagee's interest (or any other interest) when valuing for mortgage lending purposes is properly made in the margin allowed, that is, the percentage of the market value recommended as the maximum limit for the advance, and not in an attempt to deflate (or inflate) the market value of the property. Of course, it is always open to a person requesting a valuation to expressly seek a valuation of the property at a value other than the market value. But, it that is the case, that specific purpose should be stated. Similarly, a valuer can, and in many cases will wish to, draw attention in his or her report to those features which may bear on the prudence and security of the investment. But the market value remains the market value.

The second aspect of the learned Judge's judgment which must attract comment is the notion that the hypothetical subdivision approach is not appropriate when valuing for mortgage lending purposes. It has long been recognised that valuers should select the most reliable method of valuing the property in question and, to the extent that it is sensibly and practicably possible, should then verify the value arrived at by reference to other methods. No one method is generally regarded as conclusive, and for that reason prudent valuers check the valuation which they arrived at following the most reliable method, by any other method which is appropriate in the circumstances. At times the valuation may represent a collage of approaches. Two or more methods may properly be applied in respect of the subject property and the correct market value be determined by a critical comparison of the results obtained by the application of those various methods. Hence, various valuation approaches are available and none should be necessarily excluded unless, for a particular reason, they are inapplicable to the subject property.

Certainly, the sales comparison approach is the preferred approach. The valuer analyses evidence of past and current sales transactions of comparable properties making appropriate adjustments for the subject property in order to arrive at the market value. But such evidence may not be conclusive - or even available. Reference to other approaches is the only way to either verify an indicated market value or, if there is no comparable sales evidence, arrive at a market value. In respect of land, such as farm land, valuers may refer to what is known as the capitalisation or productive valuation method whereby the valuer converts or capitalises the productive income to be received from the property into a present capital sum or net present value. Where the land has potential for subdivision and the sale of smaller lots, the hypothetical subdivision approach is likely to be of assistance. It is acknowledged, however, that this approach requires the valuer to make a number of assumptions and estimates, many or most of which defy infallibility. Thus, the valuer must estimate the gross realisation of the property based on assumptions about market demand and the period required for the development and sale of the sections, estimate selling expenses, including legal fees and agents' commissions, make an allowance for profit and risk, and estimate the direct engineering and development costs and the indirect holding and financial costs and costs of purchase. An error in any premise or step in this extensive exercise can have a cumulative or multiplying effect and seriously impair the reliability of the ultimate figure arrive at. It is for this reason that the hypothetical subdivision approach is most often used as a check on other methods. But it is a legitimate valuation tool and cannot be arbitrarily excluded from the valuer's task in arriving at the market value of a property.



In a case such as the present it would be accepted that the land has potential for subdivision and development. The market will presumably (but not necessarily) include potential developers. This development potential is therefore a relevant consideration to the extent that a willing seller would require, and a willing but not overanxious purchaser would be prepared to pay, a premium for the benefit of that potential. The premium or benefit of the potential becomes embedded in the market value.

The most reliable valuation approach in the present circumstances would undoubtedly be to have regard to such comparable sales evidence as is available, and to interpret that evidence so as to relate it to the subject property. It would not be irrelevant that the land had been on the market for a significant time and that the owners had received only two offers for the purchase of the land, both at \$1,050,000, and that neither of the offers had become unconditional and proceeded. Nor is the sale of the property to One Tree Point at the same figure of \$1,050,000 to be discarded unless there is some indication that the price agreed was an aberration or represented a distortion of the open market. If, on the basis of comparable sales evidence, and the market history of the subject property, the valuer is able to arrive at an assessment of the market value, he or she could properly undertake the hypothetical subdivision exercise in order to verify or check the indicated value. If comparable sales evidence is not available or, for one reason or another, is not appropriate, this method may be the only means of arriving at the market value. In utilising this approach, of course, caution will be required lest an erroneous assumption or estimate warp or vitiate the resulting figure. Having arrived at his or her assessment of the market value, the valuer would then advise on the

margin to allow for the purposes of the loan and draw attention to any special features which might affect the property as security or the interests of the proposed mortgagee.

#### ...Applied in this Case

We consider that Messrs Hutchinson and Findlay were entitled to reject Mr Kerr's report and valuation. It did not represent the current market value of the property.

We do not doubt that the valuation referred to in subclause 16.1(g) means an assessment of the market value as at the effective date. In the absence of an express indication that some other value is required, a bare reference to a valuation must be construed as a reference to the current market value. Any other conclusion would defy both common sense and valuation theory and practice. Moreover, it is only the vendor's security in the event of the purchasers defaulting in repayment of the loan. Subclause 16.1 (g) was designed to limit the amount which Messrs Hutchinson and Findlay were obliged to lend One Tree Point as at the date of settlement, and to limit the amount which that company could borrow and secure against the property by way of first mortgage from time to time. It is to be recollected that the subclause provides that One Tree Point can refinance its first mortgage from time to time and so increase the level of borrowings, but it can only do so to the extent that the total secured indebtedness of the first and second mortgages remains less than 75 per cent of the value of the property. In the event of default by One Tree Point there will then adequate security to ensure that, on a sale, both the first and second mortgages are repaid. It is only if this 75 per cent limitation is based on the current market value that this objective will be achieved.

Quite clearly, however, Mr Kerr's valuations are not assessments of the

current market value of the land. Notwithstanding that the purpose of his valuation dated 20 November 1995 of \$19,210,000 is stated to be to assess the "current market value" of the property, it is no more than a summation of three individual appraisals of differently zoned parts of the land, each of which is itself a summation of gross realisations from a future subdivision in respect of those areas. Moreover, it openly anticipates a state of affairs as at the end of 1996 - 12 months later. Reference is made to the fact that the owners have had preliminary discussions with the chief planner of the Whangarei District Council and that, with its "verbal blessing", it is intended to apply for "a total residential subdivision over the total area" as well as maintaining a small commercial zoning. Indeed, Mr Kerr himself uses the phrase "projected valuation". The report falls far short of a proper valuation of the current market value of the property.

Mr Kerr purports to have had regard to comparable sales, but they are the sales of past and present vacant sections analysed for the purpose of the hypothetical subdivision exercise. No sales evidence of comparable rural blocks of land which have potential for subdivision and development is put forward, and no explanation is proffered as to why any such sales have not been referred to. If it is thought that no sales evidence exists or is applicable, no explanation is suggested to justify that conclusion. Yet some such explanation might have been thought reasonable before proceeding to a valuation using a hypothetical subdivision approach based on the purchaser's proposed scheme plan.

The valuation of 20 November is then used as the basis for the brief report dated 28 November 1995, although the gross realisation of the estimated potential of the land is reduced, without explanation, to \$16.9 million.

Development costs and profit are then stated to be \$13.3 million. There is no indication as to how this calculation was made. The balance of \$3.6 million is reduced to \$3.5 million as the "reasonable current market value" of the land with its current zoning "and approved residential scheme plan". Read together with the valuation of 20 November, any detached reader would be disturbed at the highly speculative basis adopted for assessing the current market value of the land, especially having regard to the magnitude of the contemplated subdivision.

The basic flaw in the valuation tendered, therefore, is that it is unduly dependent on the least reliable method of valuation which is in turn unduly dependent on a number of assumptions and estimates which are either not disclosed or are highly suspect. As such, it cannot be said to represent the market value of the land and therefore a valuation in terms of clause 16.1(g). At best, it represents a projected valuation if and when a proposed scheme plan is approved and the contemplated development is completed in accordance with the assumptions and estimates made in the course of the exercise.

We do not need to enter upon the dispute as to whether Mr Burgess' valuation, which was obtained during the course of negotiations in an effort to see whether the parties could reach agreement as to an appropriate value, can be said to be a valuation tendered to Messrs Findlay and Hutchinson in terms of subclause 16.1(g), as we consider that it also suffers from much the same shortcomings as beset Mr Kerr's valuation. It, too, is unduly dependent of a particular subdivision scheme plan of subdivision being completed. Indeed, Mr Burgess is careful to qualify his valuation. When referring to the subdivision proposal he makes it clear that his valuation has been assessed on the premise that a residential subdivision will be

undertaken "in the near future". He then concludes by affirming that his valuation of \$2.4 million is "subject to the proposed residential subdivision proceeding as outlined" by him. No doubt this qualification was the basis of Mr Burgess' recommendation of a fifty per cent margin for first mortgage finance.

Consequently, neither Mr Kerr nor Mr Burgess' valuations seem to heed the need to arrive at a valuation which reflects the market value of the land as at the effective date. Too great a regard has been had to the prospective value of the land on the basis that it is developed as proposed. Yet, the land may fall to be sold prior to any subdivision or development being commenced or, indeed, during the course of subdivision or development. The current market value is what the land would realise on the open market in its present state, that state including its development potential. But it remains the land and not the proposed development which is to be valued.

For the above reasons, we consider the Messrs Hutchinson and Findlay were wholly justified under subclause 16.1 (g) in rejecting the valuations submitted by One Tree Point. As they are not in breach of contract, they were entitled to the judgment entered in their favour in the Court below.

The appeal is therefore dismissed. The respondents are awarded costs which are fixed at \$7,500.00, together with disbursements, including travelling and accommodation expenses, which if not agreed, are to be settled by the Registrar.

Thomas J  
Solicitors

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First and Second Appellants

Russell McVeagh McKenzie  
Bartleet, Auckland for  
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