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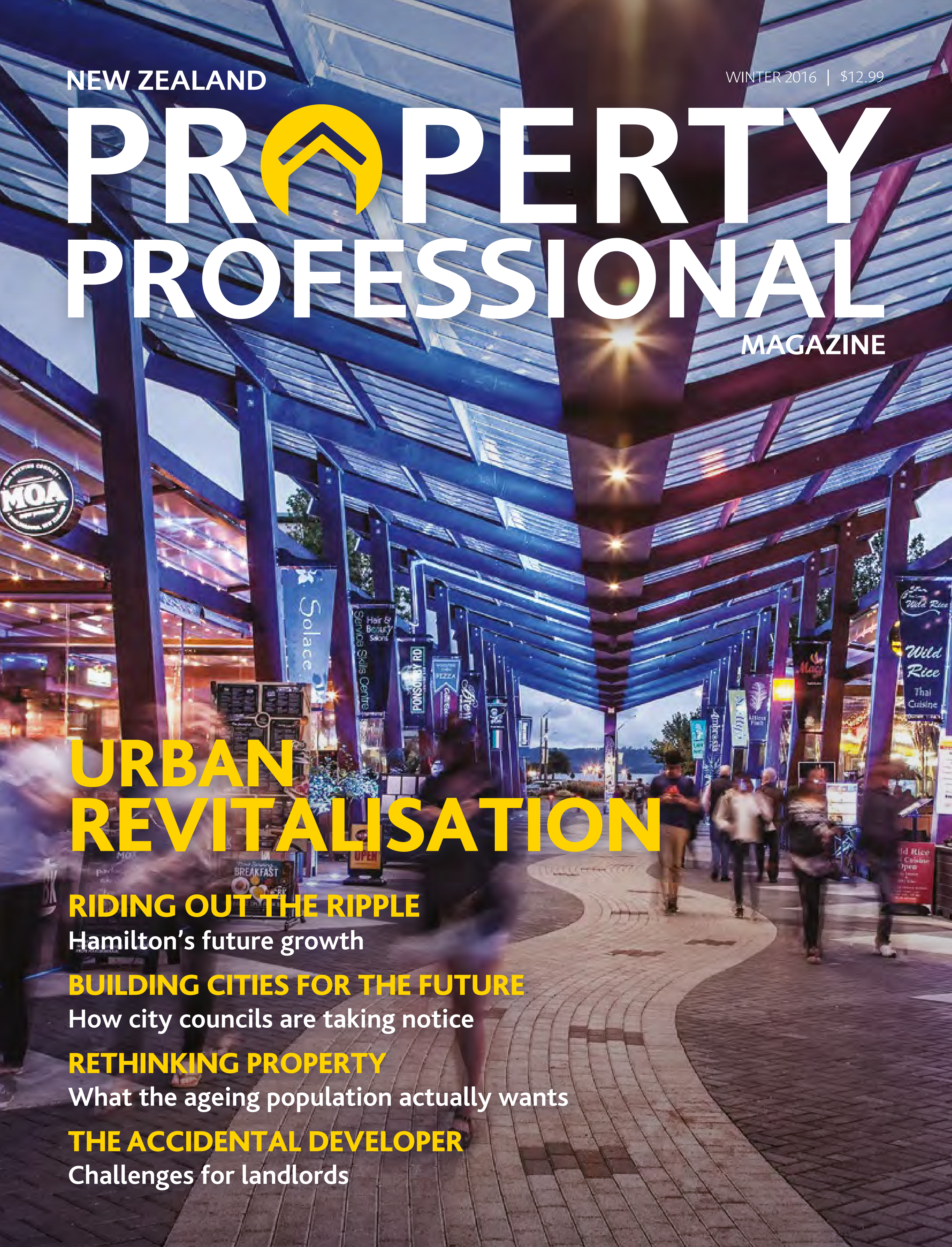

URBAN REVITALISATION

RIDING OUT THE RIPPLE
Hamilton's future growth

BUILDING CITIES FOR THE FUTURE
How city councils are taking notice

RETHINKING PROPERTY
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THE ACCIDENTAL DEVELOPER
Challenges for landlords

INNER CITY REVIVAL

ASHLEY CHURCH

Ashley Church | Chief Executive | 0274 861 770
Property Institute of New Zealand

As an Aucklander who lives in Wellington for three or four days each week I'm constantly confronted with the significant differences between these two cities.

Travel is an obvious example of this. When I'm in Auckland I think nothing of getting into my car and driving large distances to various engagements. But the mention of even a 20 minute drive in Wellington is often met with blank faces by Wellingtonians, for whom most of their business is conducted within the CBD and who are used to hopping across town in a matter of minutes.

This brings me nicely to this issue's theme – urban revitalisation and the efforts, by councils around New Zealand, to attract people into the inner city. An American poll of millennials recently found that 62% of respondents wanted to live near shops, restaurants and offices. This didn't necessary mean they all wanted to live in the 'inner city' per se, but that the perks of city life – shops, restaurants, a local pub and a supermarket all within walking distance – are highly sought after. Basically, they want suburbs that are more city-like than the ones they grew up in.

Millennials are touted as a social generation, but I don't think this applies exclusively to them. Social interaction outside of the home is becoming a much bigger part of life for most of us and, for many, meeting friends 'out' for dinner fits more easily with today's busy lifestyles than inviting them over for a home cooked meal. Increasingly, this is leading to the development of 'urban villages' on our doorstep.

Our local governments are taking notice. Around Auckland and Wellington, in particular, laneway developments have become the new 'thing' – popping up all over our cities and bringing a neighbourhood-type environment in which to socialise within an urban setting. Rotorua's development of 'Eat Streat' has been a roaring success, Christchurch's Innovation Precinct is set to also be a hospitality hub in the area and Whangarei has a new pedestrianised laneway for street stalls and night life. I see all of these developments as a good thing. Revitalisation of city centres is an important part of developing our urban centres to better support a growing inner city population.

There are also other reasons why councils might wish to bring life to their inner cities – and Hamilton is one such example. As a result of Auckland's booming property market, Hamilton is set to transform (as you will see in our spread about the revitalisation of the city's CBD). But Hamilton faces the challenge of bringing people 'back into town' after northern developments over the past decade have pulled the heart, and therefore the shoppers, away from the city. With population growth second only to Auckland, Hamilton is looking to the future with a transformation plan to ensure it can offer the metropolitan lifestyle its booming population will want.

Speaking of our regions, our 17 regional branches are run by volunteer chairs who do a fantastic job pulling together events for our members. To see what they have coming up over the next few months see our section on PINZ branch events.

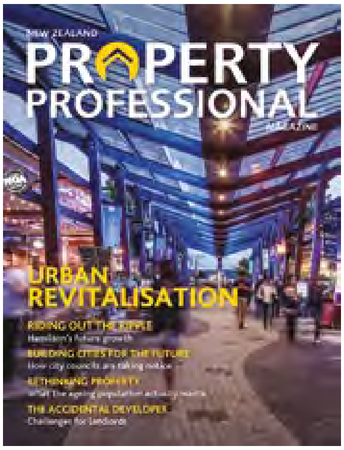
Our conference is also just around the corner on 16 to 17 June. Inside this magazine you will find more information about the awesome line-up of speakers we have in place, and our nominees for the Young Professional of the Year Award – looking to be hotly contested by a great bunch of high-achieving young people from the property industry. Hope to see you at Conference 2016.

WORKING FOR YOU: RESIDENTIAL VALUERS FORUM

The introduction of Valuation Ordering Services (Clearing Houses) in 2012/13 took the Institute and the valuation industry by surprise – and they are still the subject of significant feedback from aggrieved members. Initially introduced under the pretence of 'improving quality', the Ordering Services have now become a mechanism by which pricing is being kept flat and the value of 'reputation' is being neutralised. This issue has been further compounded by the increasing use of computer-assisted valuation services and other new technologies being utilised by the banks.

Countering this challenge will require a strong response from the Institute and the cooperation of our valuer members. To this end, I have taken steps to improve our relationships with senior figures in the financial sector. One of my more significant initiatives has been to work with the banks to set up the Residential Valuers Forum – an industry panel dedicated to facilitating positive communication between the banks, Ordering Services and valuers and working together to improve quality. As Chair of the Forum, I am excited about the role that this body will play and see it as a fantastic vehicle for residential valuers to have their voice heard by the industry and the financial sector.

This initiative will directly impact on our members and is a tangible reminder of why it is good to belong to the Property Institute.



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FEATURE ARTICLES

HAMILTON – A CLEAR FOUNDATION FOR GROWTH

In recent years Hamilton's CBD has been the subject of much discussion, both in the opinion pages of the Waikato Times and in the Mayoral office. Opinions are typically strong, occasionally conflicting, and always passionate. It's clear that people care about the CBD and I expect this issue to be at the centre of the forthcoming elections. But in the midst of all the debate about immediate problems and priorities it can sometimes be difficult to take a step back and consider strategic perspectives in an objective manner – just what might the future hold for Hamilton's city centre over the medium to long term?

The critical point to recognise is that there is a clear foundation for growth, in part due to wider societal changes. Hamilton has a predicted overall rise in population that is second only to Auckland, growing from 150,000 in 2013 to around 200,000 in 20 years from now. In addition to a total rise in possible residents, shoppers and business owners, it is useful to look in more depth at how demographic changes will affect the future of the CBD.

Youthful demographic

It may surprise some readers to realise that Hamilton is already the most youthful city in New Zealand, with 48% of the city's population under 30. It is a trend that is set to continue as the spiralling housing market in Auckland pushes young singles, couples and families to the surrounding regions as buying a home in Auckland becomes increasingly unfeasible. In the University of Waikato and Wintec the city also has two higher education facilities that are both looking to expand student numbers. This demographic dividend is a real coup for Hamilton; the under-30s are very economically active and tend to be significant users of city centres.

The second key element is housing demand and supply. In 2015, Hamilton had the fastest rising house prices in the country. This activity has been mainly targeted at the lower end of the market and, in addition to ongoing population growth, is partly driven by Aucklanders looking for investment properties. From a CBD perspective this is a very positive trend. Hamilton's housing stock is currently dominated by a large percentage of family homes on a decent sized plot in the expanding suburbs, but as the prices increase so too does the viability of inner city living.

> *Hamilton has a predicted overall rise in population that is second only to Auckland.*

There is a lot of spare space in and around the CBD and I expect that developers will begin to become less conservative and listen to shifting market signals regarding the type, density and location of dwellings. This isn't just a matter of younger age groups; pensioners whose children have flown the nest may also appreciate the chance to downsize to a quality, smaller dwelling and

The political challenge is to direct the influx of people and capital to where the city will reap the most benefit – another 5,000 to 10,000 people living within a 15 minute walk of the core will transform the city.

Iain White is a Professor of Environmental Planning at the University of Waikato. ▸

free capital. Over the medium term you can expect to see more apartments overlooking the river or well-designed townhouses within walking distance of the centre to service the growing demand for housing choice.

Future of the CBD

Managing these changes wisely is the key to the future of the CBD. Simply put, the political challenge is to direct the influx of people and capital to where the city will reap the most benefit – another 5,000 to 10,000 people living within a 15 minute walk of the core will transform the city. Where people go, capital follows; bars spring up, more services appear, and a vibrancy emerges that creates a virtual circle of demand and investment.

Council policies

Without going into too much detail, beyond these societal drivers there are also some good council policies starting to emerge that will benefit the CBD. For example, the Ferrybank project will help lever in millions of dollars of investment and help turn the city towards the Waikato River. Some exciting public realm works are underway, such as the new Victoria on the River public space, while the People's Project is starting to make ground on the issue of homelessness. Changes to planning are also positive, with the council becoming responsive to partnerships working and being flexible about developer contributions. Other policy changes will start to filter through, which means that you can expect more offices will be established in the city centre over the medium term as supply has been constricted elsewhere.

It is vital that after the forthcoming elections the council continues to provide certainty to the development sector and make the most of the opportunities that are coming its way. This means being less ideological about what the council should be doing and instead focusing on outcomes.

A possible future threat to this task is partly historical. The shadow cast by the decision to host the V8s was much more than financial; it created a risk aversion amongst some politicians and a very narrow view of what the council should be doing. Positive approaches that involve public time or funds have been stifled by simplistic calls to 'remember the V8s', but this hands-off strategy doesn't appreciate how cities around the world are becoming successful by innovatively working in partnership with the private sector.

You may need to invest in amenities or the public realm, put down stronger density or design guidelines, or work creatively with the development community in order to direct investment to where you'd like it to go. Thankfully, however, as seen by the Ferrybank development and other initiatives, it is a political argument that is gradually being won – to the benefit of future citizens and investors.

These solid foundations mean that Hamilton's CBD is well placed to renew and regenerate over the medium to long term. The challenge for both investors and politicians is to consider how they can take the maximum advantage of what may be coming over the horizon.

PROJECTS SET TO TRANSFORM HAMILTON'S CENTRAL CITY

Hamilton's central city is on course for a major transformation, with plans underway to integrate it with the Waikato River and to transform the CBD into a thriving commercial and residential centre.

Hamilton City Council's plans for the city coincide with the increased number of people moving to Hamilton, lured by the city's unique quality of life, affordable housing and a diverse and growing economy. In 30 years, Hamilton's total population is predicted to increase by 80,000 people, which represents a population growth of around 52%.

Over the years I have noticed that Hamiltonians are increasingly proud of their city, and with that comes an expectation of modern quality infrastructure and better public spaces. We are responding to this by embarking on a journey of central city transformation, while simultaneously redefining the city's relationship with the Waikato River – our defining geographical feature.

New development incentives, including a new approach to how development contributions apply in the central city, regional and town planning changes, a renewed focused on public safety, and a multi-agency effort to tackle homelessness in the central city, known as the People's Project, are supporting this journey.

The River Plan

The Waikato River is Hamilton's defining natural feature, and yet the city has largely been developed with its back to the river. Hamiltonians have wanted to see the river developed for decades. Several attempts have been made in the past to develop a plan or launch a major project that would change the way in which the city connects with the river, of which around 16.5 kilometres flow through it.

We now have a plan set in motion to roll out a range of projects over the next three decades. It represents Hamilton's coming of age as a city – it is the first time the city has had a comprehensive strategy to transform the way it uses and views the river.

Projects include riverside park redevelopment, facilities for walkers and cyclists, tourism initiatives, significant Maori site acknowledgement and interpretation, better management of the riverside vegetation to increase access to river views, and turning an existing pedestrian bridge into a garden bridge.

The River Plan provides a guide for the council, businesses, developers and the public over the next 30 years. It will shift the way in which Hamiltonians relate to, celebrate and enjoy the river, and the way in which outsiders view it.

The Ferrybank Development Plan

The Ferrybank Development Plan is the first, and most significant, of the major projects to get underway. It forms the basis for what will occur at the city's prime riverside public space, the Ferrybank and Roose Commerce Park precinct, and will allow the wider Ferrybank area to become the premier recreation and social space in Hamilton with connections to both the central city and the river.

The plan will propose a realistic staging strategy to make this happen. A design consortium led by Wraight Athfield Landscape and Architecture was selected, following a design competition, to deliver the development plan by August this year. The design approach works closely with the attributes of the site – the river, the landscape terraces between the river and the city, the existing large trees, and various valuable buildings and activities across the site.

There are various commercial development opportunities proposed in the Wraight Athfield plan, including high quality space for lease offering good access, visibility and integration with the street.

Central City Transformation Plan

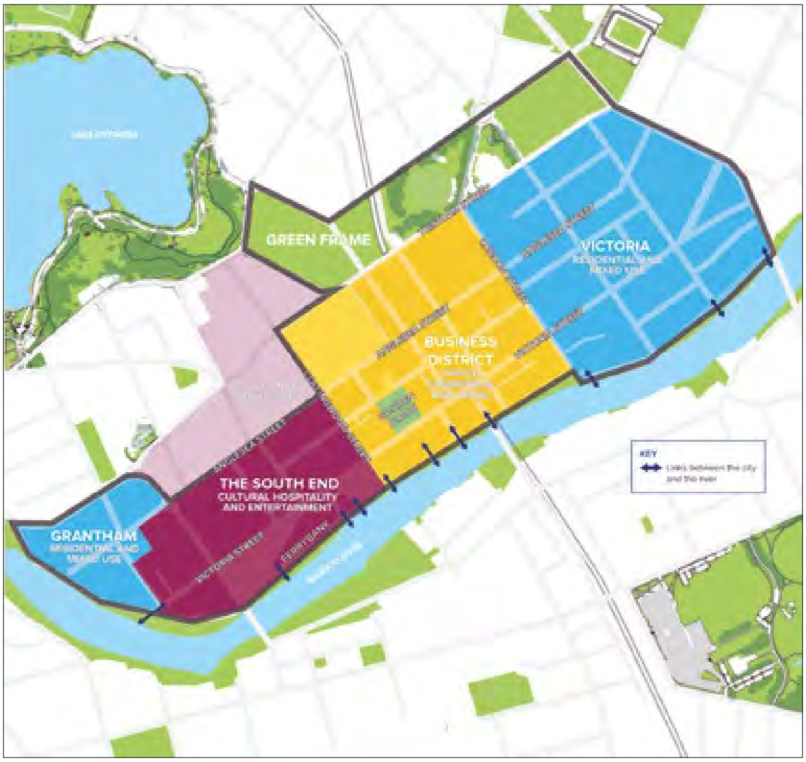
Linked closely to the River Plan and its showpiece, the Ferrybank development, the Central City Transformation Plan aims to transform the central city into a prosperous commercial centre with a vibrant metropolitan lifestyle.

It is as an action-focused and practical approach designed to revitalise the central city and encourage more people to visit, live and work here. By reshaping the city centre into three distinct precincts (The South End, Business District and Victoria) it will significantly reduce the size of the Business District, creating obvious parking zones and transforming Victoria on the River – currently a car park – into a public green space by early 2017.

The central city has good bones, but we need to add value to the fundamental structure and shape. We need the central city to have a better identity and monikers that identify and describe its precincts. Success is linked to more people working and living in the city.

The Central City Transformation Plan aims to transform the central city into a prosperous commercial centre with a vibrant metropolitan lifestyle.

Mayor Julie Hardaker has been Mayor of Hamilton since October 2010. Prior to being Mayor, she worked as a lawyer and was a partner in the long-established local law firm McCaw Lewis Chapman.



VICTORIA ON THE RIVER DEVELOPMENT

Throughout 2016 the Victoria on the River site – on Hamilton's main Victoria Street – will be developed into a park-like location, enhancing the connection to the Waikato River and taking advantage of the city's defining geographical feature.

Victoria on the River is a two-stage project that began in April 2016 with the remediation of the site, which includes the removal of many truckloads of undesirable 'fill' material from the riverbank and existing carpark edge.

Stage two, from October to early next year, will see the redevelopment of the site from a nondescript erosion-prone carpark into a prime public space. When completed, people will be able to enjoy sweeping views to and across the river and to relax, socialise and enjoy the unique natural environment provided by the river corridor.

HAMILTON HAS A WINDOW OF OPPORTUNITY

CHRIS WILKINSON

Hamilton has had more than its fair share of challenges to deal with. Major developments on the outskirts had drawn workers and shoppers from the city. Coupled with visible social issues this meant people were disengaging from the city. Locals were falling out of love with their CBD.

Chris Wilkinson is the Managing Director of First Retail Group, commercial strategists who work across the sector with retailers, property owners and councils throughout New Zealand and internationally.

The Central City Transformation Plan is a radical strategy Hamilton City Council embarked on in 2014. First Retail Group developed the elements that look at how the retail and hospitality sector can best meet and shape their future market.

Making it happen

The city has struggled managing legacy issues from previous administrations and this put a handbrake on investment and created a mindset of conservatism. To move forward, some audacious decisions and investments need to happen as a catalyst for others to follow.

We've seen a lot of capacity and capability in Hamilton from the property sector. What has been lacking is that lead from council that demonstrates things are happening. Unfortunately, the hiatus between the Central City Transformation Plan and the action phase has cost some goodwill and confidence.

What's clear is that a fresh approach is needed. This may mean that existing strategies, such as the BID (Business Improvement District), need to be revised with more contemporary governance models considered. The city also needs to define its proposition and better market itself – both as a destination for business and leisure. Perfectly positioned to benefit from the 'Auckland effect', Hamilton does have a window of opportunity if it chooses to act.

Artist's impression of Ruakura Inland Port development

REALISING RUAKURA

CHRIS JOBLIN

Ruakura, our 480 hectare master-planned development of national significance, is a waking giant about to bring fresh jobs, homes and businesses to Hamilton. In the fullness of time it will also serve as the largest industrial development ever in New Zealand.

After almost 10 years on the drawing board, and an 18 month planning Board of Inquiry under our belt, getting here has not been an overnight event. But with key resource consents now in the bag, and Auckland businesses facing economic pressures to move south, all the elements for a logistics-led development success are now falling into place.

Suddenly the world is looking Hamilton's way. We anticipated this situation years ago and have laid the groundwork for the orderly urbanisation of Hamilton's east with the creation of a master-planned inland port and logistics hub for importers and exporters who seek the lowest overall costs to serve their markets in New Zealand and globally.

We are aiming to commence inland port operations in mid-2017 and will shortly seek a world class operator for our 32 hectare inland port. Ruakura has always been an intergenerational project. We are planning for relatively modest container volumes in the first year of operation. However at full capacity the port will be able to accommodate up to one million TEU (20 foot equivalent units) movements per year.

Ruakura will offer best in class rail and motorway links for the golden triangle of Auckland, Hamilton and Tauranga with equidistant access to the two major North Island seaports. This will offer channel flexibility and security of supply chain to and from global markets.

After a decade on the drawing board, Waikato-Tainui's vision for Ruakura is now just 12 months away from reality says Tainui Group Holdings CEO, Chris Joblin.

The entire Ruakura development has the potential to boost the gross regional product of the Waikato by over $4 billion per year.

Working together

Collaboration is a key part of the Ruakura story. The development may be the vision of Tainui Group Holdings, but we have only got here with the support and partnership of the Hamilton City Council, the Waikato Regional Council, the NZTA, KiwiRail, TransPower and many others. For example, the NZTA has included a dedicated Ruakura interchange from the Waikato Expressway (under construction), and we are working closely with KiwiRail and other key transport partners to secure the most cost-effective connections to seaports.

Surrounding the inland port there will be a further 70 hectare logistics precinct for freight aggregation, materials handling, container loading, delivery and despatch. We envisage the port itself will become a bill of lading facility to assist our customers with optimising their business processes. The adjoining logistics precinct will also become an MPI transactional facility and New Zealand customs controlled area. The early movers will be able to secure the prime sites closest to the port.

Light industry and learning

Beyond the inland port and logistics precinct, a 260 hectare light industrial park is next to be developed. This area will suit distribution centres which do not need direct access to the port, support services for the logistics precinct and a motorway service centre.

Further to this is a Knowledge Precinct, which will complement the existing AgResearch and University of Waikato campuses and the Waikato Innovation Park. When complete, the new precinct will total 108 hectares. The Knowledge Precinct will encompass a Ruakura Retail Centre to be anchored by a supermarket or home improvement store, providing much-needed amenity to the existing and new residents.

The logistics, industrial and knowledge precincts are around three times the size of the Highbrook Business Park in Auckland. Economic modelling shows the entire Ruakura development has the potential to boost the gross regional product of the Waikato by over $4 billion per year.

Homes for Hamiltonians

The residential areas of Ruakura will accommodate up to 1,800 new residential sections. TGH will develop between 160 to 200 of these sections, with the balance developed by Chedworth Properties and others. Also 52 hectares of public open space are included in the development. This has been prioritised in the master-plan and represents 10% of all land, which will comprise cycleways, walkways, habitat for native fauna, reserves and recreational facilities.

As we bring Ruakura to life we will work closely with our local community, businesses and councils to create something to put Hamilton on the map for the next 50 years. Ruakura will make our community and economy stronger and generate sustained prosperity for current and future generations of our owners – Waikato-Tainui.

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URBAN REVITALISATION

LEAVING LEAFY SUBURBS FOR URBAN LIVING

DIANA CLEMENT

The great urbanisation. It's the big bogeyman in the minds of many Kiwis and they'll fight it in their backyards until they're either blue in the face, or give up and move on.

Yet the idea of living in smaller dwellings is creeping up on more and more of us as something desirable, whether we live in the main centres or smaller communities. A wide range of factors is pushing more New Zealanders towards life in medium-density housing and/or apartments. The two top drivers are economics and a gradual change in the Kiwi way of life.

Some apartment dwellers say they're forced to buy an apartment because of house prices. Others are choosing to live in higher-density communities for social reasons, such as wanting to stay near the family, but they also want to live in a low maintenance home.

The move isn't entirely new in the 21st century. In the 1960s and 1970s brick and tile sausage block apartments proliferated across the country, turning quarter acre sections into homes for three or four households.

In the 1970s and 1980s townhouses took off, with the same effect on the traditional section but without the communal gardens. Then in the 1990s apartments hit town in the major cities and this trend has slowly trickled into the smaller urban centres. The latest move is towards medium-density housing such as terraced blocks.

It's happening all around us

It's not just an Auckland thing. Kiwis are making the move to this new denser style of living all over the country. Even in sleepy Stoke on the outskirts of Nelson, apartment-style living is popping up. At the time of writing a three-bedroom modern apartment in Rochdale Way, Stoke was on the market for $355,000.

The move is just more pronounced in Auckland, Wellington, Christchurch and a few other centres such as Tauranga. In Auckland there's even a specialist real estate agency that does a roaring trade selling only apartments.

Artist's impression of Auckland's Wynyard Quarter and future commercial development

Diana Clement is an Auckland-based freelance journalist. She has written property-related and personal finance features for publications in the UK and New Zealand in her 20-year career.
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EVEN IN SLEEPY STOKE ON THE OUTSKIRTS OF NELSON, APARTMENT-STYLE LIVING IS POPPING UP.

Wellington's Clyde Quay Wharf Apartments
PHOTO: PAUL MCCREDIE

Wellington's Clyde Quay Wharf Apartments

PHOTO: PAUL MCCREDIE

Martin Dunn, founder of City Sales in Auckland, says he was being told 'quite vocally' in 1997 that he was crazy to specialise in apartment sales. 'People told us that Aucklanders would never take to apartment/urban/inner city living. Since then over 30,000 apartments have been built.'

City living suits some

The reality is that New Zealand is opening up to the outside world and we are becoming more international and the way we live is changing, says Dr Susan Flint-Hartle, Senior Lecturer at the School of Economics & Finance at Massey University. 'We were always very isolated. We are now becoming more like the rest of the world.'

Owner-occupied intensive living appeals to two main groups, says Dunn. 'There are the young people who are dismayed at having to pay $700,000 for a broken down house in Takanini (South Auckland) that they wouldn't want to live in. For $500,000 they get a decent-sized two bedroom apartment and carpark. Some, of course, love the apartment lifestyle and are happy to make the move.'

The other group is the proverbial 55+ Kiwis who are downsizing from all the maintenance and gardening of a standalone home and are freeing up capital at the same time. They're more likely to spend $1 million to $1.5 million on an apartment in Auckland or much less in other centres.

QV national spokesperson Andrea Rush says the primary reason for the popularity of inner city-styled living among the younger or millennial generation is affordability followed by lifestyle. 'If the millennial could afford to purchase the large family homes they have been raised in, then most would.'

Many baby boomers, says Rush, want to retire to a low maintenance inner city lifestyle. 'This is a growing trend in Auckland, Tauranga, Mount Maunganui, Nelson, Wellington and even in Queenstown where there are more apartment complex style homes on offer.'

In the capital, says, David Platt, Director of Tommy's real estate, Wellingtonians are starting to really appreciate the social aspect of living in town. Platt, who lives in the CBD himself, says: 'The lifestyle change is brilliant. We go to the movies at short notice, we catch up with friends at short notice for a meal. We are 10 minutes taxi ride to the Wellington Airport.' He adds that inner city dwellers often find that they save valuable time and money by being able to walk rather than drive a car or use public transport.

Flint-Hartle also points out that as well as the Kiwi culture changing, new immigrants often prefer higher-density living to the quarter acre paradise.

MCMANSIONS, OR AT LEAST LARGER BOOMER HOUSES, ARE TAKING LONGER TO SELL.

Are big houses passé?

But the move to higher-density living is not for everyone. There's anecdotal evidence in parts of New Zealand that McMansions, or at least larger boomer houses, are taking longer to sell. There will be pockets where this is the case.

TOO MANY OF THOSE IN POSITIONS OF POWER WITH A SAY IN THE PLANNING AND BUILDING OF HOUSING ARE CAUGHT UP IN THEIR OWN PREJUDICES

For Wellington City, in the last six months there were roughly four times as many 'smaller houses' sold than 'larger houses'. Smaller houses have an average time on market of 28 days compared to 45 days for larger houses, according to CoreLogic figures. However the data comes with a proviso about whether or not it was the size of the house that was the major factor contributing to the length of sale. For instance, the age of the property or its suburb/location may be larger factors, says Nick Goodall, Senior Research Analyst at CoreLogic.

Rush consulted QV registered valuers around the country and says the 'Kiwi Dream' is most definitely still alive. 'Well-presented, free-standing properties which occupy full sites attract significant value premiums when compared to their attached/communal site counterparts.'

In Wellington, says Platt, that demand in leafy suburbs such as Khandallah and Karori isn't going to be lost any time soon. Millennials and other generations with children don't want to live in apartments.

Medium density the way to go

Auckland 'design champion' Ludo Campbell-Reid, General Manager of the Auckland Council Design Office, believes that higher density isn't just the way for Auckland, but that it would benefit the entire country. Campbell-Reid is a man who thinks big and he argues that New Zealand needs a paradigm shift in the way it lives. The boomers want to live near to their children and vice versa, he says, but there isn't always suitable housing available, which sometimes pushes them out of the area.

He believes the answer is large-scale medium-density housing across the country, not building retirement housing in the middle of nowhere as has been traditionally done where older people are divorced from the community. They'd rather be in a town centre close to the opera, cinemas, restaurants, transport and other facilities.

But it's not going to happen without quality medium-density housing, he says. At the moment higher-density housing than the traditional quarter acre paradise is either high end or cheap, with little in the middle. New medium-density housing needs to provide better living than they currently have to draw people in, says Campbell-Reid.

In his view, this lack of decent medium and higher-density housing for aging Kiwis is proving a problem. New Zealand's housing stock is fairly inflexible. Too many of those in positions of power with a say in the planning and building of housing are caught up in

Artist's impression of commercial developments at Auckland's Wynyard Quarter their own prejudices, he adds, and can't think outside of the square to do what's needed to create a vibrant community.

After the 80s townhouse boom developers turned their attention to building shoe box apartments that don't tend to meet the needs of boomers. Currently many luxury apartment complexes are going up in Auckland and elsewhere. But the prices are sometimes more than the boomers can afford, especially when body corporate charges are factored in.

Trading places – the big boomer house swap

With boomers moving into the city, and millennials dreaming of buying a home in the 'burbs to bring up the kids, are we likely to see them trading places?

The key issue with this is affordability. Until they get their inheritances, many Auckland-based millennials will be priced out of the nicer suburbs where they may feel entitled to live, although that's not the case in most parts of the country. There just may not be suitable housing available so that boomers can move out of their homes.

Even so, says Campbell-Reid, the great house swap is happening overseas and New Zealand isn't immune to it. Empty nesters have discovered that they want to enjoy themselves, not mow grass. And they like downsizing if they can get over their cultural prejudices.

One spanner in the works for some is that millennials are staying at home longer, says Flint-Hartle, and creating multi-generational housing that we've not seen for a few generations. Boomers are also healthier than previous generations meaning they stay in the family home until a later age.

The move to the inner city isn't for everyone. Some want to stay in the suburbs where they've lived for years, but there isn't necessarily the housing for them. In that case, we should be building the housing stock they want in these suburban centres and 'villages', Campbell-Reid says.

100 St Aubyn Street, Auckland

Retail playing catch-up

The lack of services has until now stopped mass movement by baby boomers in the bigger cities. Yet the population shifts are happening and the services to support the people have yet to catch up, says Justin Kean, Director Research and Capital Markets at JLL, and a hole has opened up in the retail fabric.

Kean points out that in Auckland, where the CBD's population has been growing steadily since the early 1990s, retail has begun to return with New World Metro and Countdown supermarkets being built in the past decade and the somewhat tired Downtown Mall getting a $681 million redevelopment.

Auckland's inner city population is expected to double to 50,000 in 20 years. 'We will have the equivalent of the entire population of Whangarei living in four square kilometres of Auckland's CBD,' he says.

Rotorua's award winning Eat Streat development creates a hub for hospitality and dining in the city centre

Retail is catching up, Kean notes, but there is still a long way to go. 'Suburban service-style retail' is also lacking in the centres where population numbers are increasing. That's the doctors, dentists, hairdressers and so on. 'If I live in the suburbs I go home and I have a local hairdresser, physio or doctor. If I move into the CBD because my kids have moved out of home I am not going to go back to (the suburbs) see the doctor,' he says.

He adds that this is only a problem in the big cities. Suburban malls suffice in smaller cities, because someone living in the Napier City centre might be quite happy to drive to Taradale to go to the doctor.

Regional snapshot

Utter the words 'urbanisation', 'apartments' and 'multi-unit dwellings' and the word 'Auckland' is the knee-jerk reaction. The reality is that urbanisation is happening everywhere. Even in sleepy hollows. Even within the Auckland context, buying an apartment doesn't necessarily mean living in the CBD. More and more apartments are appearing in suburban hubs such as New Lynn.

Once the preserve of wall-to-wall car yards, Great North Road in Grey Lynn is springing apartment blocks almost as quickly as pimples on teenagers. Just next door to Ponsonby, but later to gentrify, the area is extremely sought after.

Outside of Auckland there are apartments and medium-density housing shooting up wherever there are urban centres. In New Plymouth, for example, CBD and seafront apartments are popular. At the time of writing a seafront 'penthouse' in St Aubyn Street was on the market for $1.27 million.

Rush adds that recent commercial developments in Queenstown, Wanaka and Cromwell in Central Otago, which build on the history and culture of these centres, are creating sought-after urban environments that offer a 'stylish food and retail environment which is very attractive to people and tends to add real value to an area.'

Urban developments such as Auckland's Ponsonby Central, upgrades in Wellington City, and even the recent developments in Queenstown, Wanaka and Cromwell in Central Otago, are adding real value to those areas, says Rush.

Melbourne-style 'laneway' developments in particular are popping up right around New Zealand, making inner cities more desirable for living. They include:

- Eat Street, Rotorua
- New Regent Street, Christchurch
- Eva and Leeds Streets, Wellington
- Wall Street Mall, Dunedin
- The Laneway Project, Whangarei
- Conway Lane, Rangiora.

In Tauranga, the Century Arcade has been tipped as having potential as a modern laneway development.

PROPERTY INSTITUTE

Our five strategic steps towards a more modern, relevant and professional organisation

Events over the past couple of years have highlighted the need for significant change within the Institute. An overhaul of the service provided to our members, the challenges presented by the likely deregulation of the 1948 Valuers Act, and demographic and competitive challenges within the property industry as a whole led the Board to seek a new direction for the Property Institute. The proposed plan can be summarised as a series of recommendations around five strategic steps that need to be taken by the Institute.

1

IMPROVED PERFORMANCE:
Provide a higher quality level of service for our members and ensure that all back office processes are robust and effective

2

BETTER EVENTS AND ACTIVITIES:
Provide more selection, more often, to a higher quality – and base the programme on what members actually want

3

EXPANDED MEMBERSHIP:
Appeal to a wider range of property professionals and grow beyond our four existing communities

4

MODERNISED MEMBERSHIP STRUCTURE:
Empower our four communities, simplify membership advancement and enable future membership growth

5

UPDATED REVENUE MODEL:
Increase the range of non-subscription revenue sources and improve member value relative to cost

The new Rules to implement these change are currently being drafted. The timeframe for consultation of the proposed new Rules is:

July/August 2016 Consultation with communities and branches; **September/October 2016** Consultation with members; **November 2016** Deadline for member feedback ; **December 2016** Rules endorsed by the Board; **February/March 2017** Membership vote on proposed Rules.

UNDERWAY

RECOMMENDATIONS UNDER DEVELOPMENT

HOUSING OLDER PEOPLE ACTUALLY WANT

Responding to the rising tide of an ageing population

KAY SAVILLE-SMITH

The silver tsunami

It has become fashionable to talk of the silver tsunami when we describe the impact of New Zealand's ageing population structure. But this is no tsunami – it is more like a slowly rising sea level.

Unlike a tsunami, New Zealand has had many years to think about our ageing future. Yet we have done little about it, perhaps because in some areas the population is still relatively young, sustained by the younger age pyramids of our Pacific and Māori populations. The reality is, however, that some parts of this country already have age structures more like ageing Italy, Germany, Japan and Greece rather than the still relatively youthful population of Auckland.

Property investment implications

So what does this mean for property investors? There has long been the notion that older people downsizing will generate a demand for apartments in New Zealand. However some interesting complexities around this seemingly simple response to a structurally ageing population emerge from *Find the Best Fit*, a Centre for Research, Evaluation and Social Assessment (CRESA) three-year research programme exploring older people's desire and capacity to downsize.

This research has surveyed, interviewed and undertaken focus groups with over 1,300 older people. National house price data from 1990-2013 has also been analysed by following the repeated sell and buy prices of specific dwellings. So for property developers and investors here are some top-line findings:

Older people would like smaller homes and gardens in walkable neighbourhoods, but find it difficult to find smaller suitable homes.

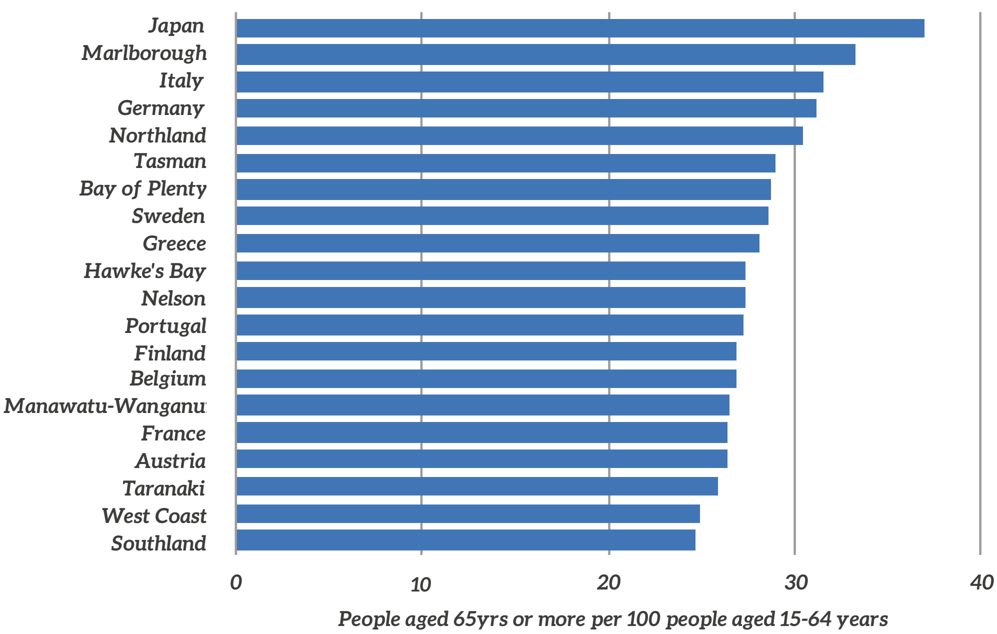

Figure 1: Older age dependency ratio – NZ's oldest regions and the OECD's 10 oldest countries

Kay Saville-Smith is the Research Director at CRESA, which she co-established in 1994, and is involved in the Find the Best Fit research programme.

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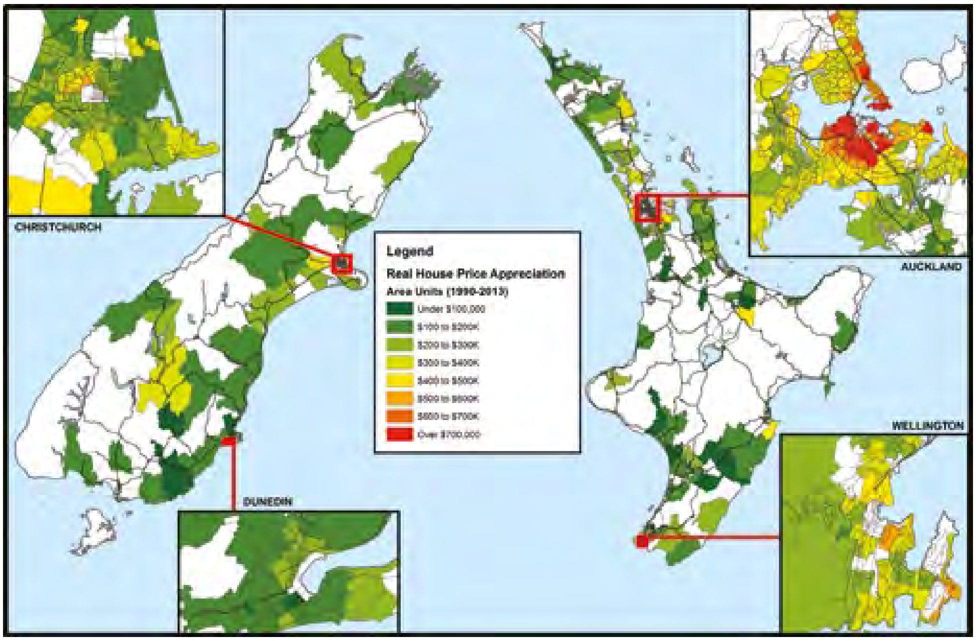

Figure 2: Real house price appreciation area units 1990-2013.
Source: Dr Michael Rehm and Professor Larry Murphy, University of Auckland, in Find the Best Fit

> ***The vast majority of older people who aged in the post-war period are home owners, but in three decades this is not going to be the case.***

- Older people are not big movers:
  - 79% of the 550 randomly surveyed older people living in the community had not moved dwellings in the five years before surveying, and
  - 78% of non-movers and 84% movers had no intention of moving within the next two years.
- Smaller homes are wanted by those seeking to move but:
  - Older people have anxieties about apartments related to body corporates and the leaky building syndrome
  - Entry to a retirement village is often perceived as resolving (rightly or wrongly) risks and inconvenience around body corporates and leaky buildings
  - Older people would like smaller homes and gardens in walkable neighbourhoods, but find it difficult to find smaller suitable homes that are:
    - at an affordable price
    - designed to be accessible and universally functional
    - connected to shops and other amenities.
- Around 17% of retirement village survey participants and 21% of movers wanted to release equity from the sale of their last home but:
  - Equity release can be modest and varies considerably from place to place – some people simply cannot afford to downsize
  - More than half (54%) of the older movers paid more or the same for their downsized dwelling as they gained from selling their previous dwelling.

These survey-based findings are consistent with both our qualitative work with older people around issues of downsizing and the housing price appreciation analysis, which followed the value of dwellings sold and bought from 1990 to 2013. The latter shows there is considerable variation in house price appreciation. The heady price appreciations cited in the media tend to reflect housing markets in Auckland, but there are more modest appreciations around much of the rest of the country.

Pros and cons of retirement villages

Retirement villages have been on the leading edge of:

- More appropriate stock-sizing for older people
- Take-up of accessible housing design – represented in a significant number of retirement village operators seeking LifeMark accreditation
- The development of what are effectively master-plan developments with care given to communal and outdoor areas.

The stock provided through retirement villages is, compared to the New Zealand housing stock as a whole, heavily weighted to smaller dwellings and apartments.

However there are also barriers to retirement village living. Some older people expressed resistance to being with elderly people and living in a homogenous neighbourhood. There were also affordability barriers presented by the costs of licence to occupy and ongoing monthly costs. Also many retirement villages have, because of the issues around sustaining their business models, increased the age of entry and moved away from a model of attracting early retirees.

Yet this downsizing research shows (confirming other research) that it is towards retirement many people think about moving and seeking a home for their retirement years. It is this pre-75-year-old population that find themselves with limited housing options.

Find the Best Fit research programme

The research in the *Find the Best Fit* programme has focused on older owner-occupiers. However from a property investment perspective it is important to recognise that New Zealand is not just experiencing population ageing. It is also experiencing a tenure revolution. The vast majority of older people who aged in the post-war period are home owners, but in three decades this is not going to be the case. The proportion of dwellings that are owner-occupied is falling, although the extent of that fall is somewhat obscured by licence to occupy being treated as owner-occupation in the census statistics (**Figure 4**).

Falling home ownership rates are already affecting older people. The percentage change in older people's owner-occupation shows a complex pattern, with negative changes among the 'younger old' and more sustained home ownership among the 'older old'. The latter suggests that, despite the extension of our lives, older people are currently more likely to retain home ownership and age in place (**Figure 5**).

To date, property investors have focused very much on owner-occupiers, typically on the assumption they have through their equity money to spend. Retirement villages have made a strong showing among higher income and asset-rich older people already. The gaps that are opening up are among functional dwellings for older people with more limited wealth and constrained incomes, not simply in Auckland, but in other centres with already structurally aged populations.

A new renting future

There is, too, a new renting future. This raises both opportunities and challenges for property investors and developers, especially about how to increase provision of smaller homes and outdoor areas while maintaining the accessibility and connectivity of older people and their desire for space and an outlook.

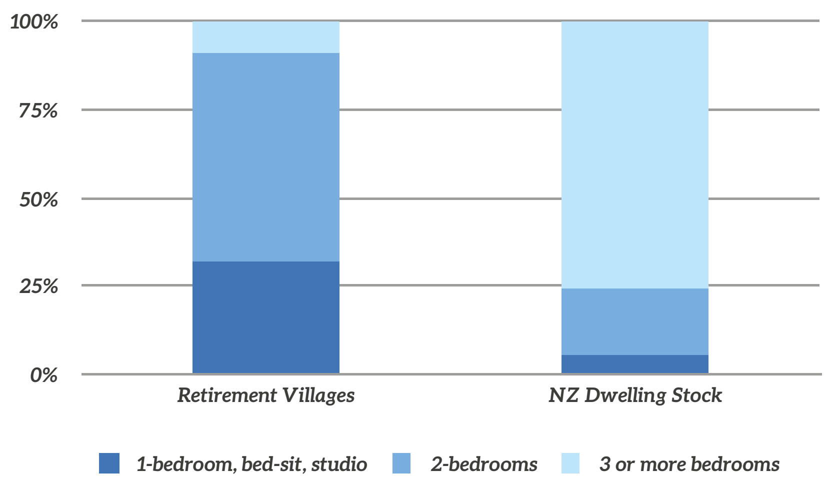

Figure 3: Stock types in the NZ housing stock and in retirement villages

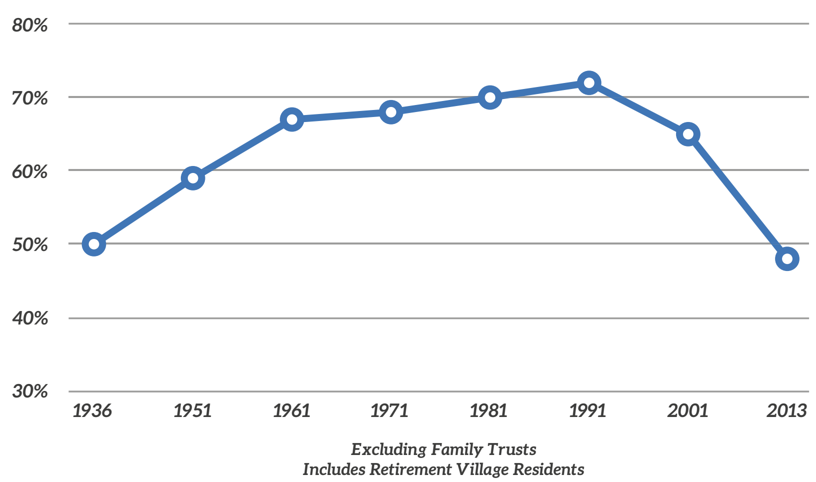

Figure 4: Proportion of dwellings in owner-occupation

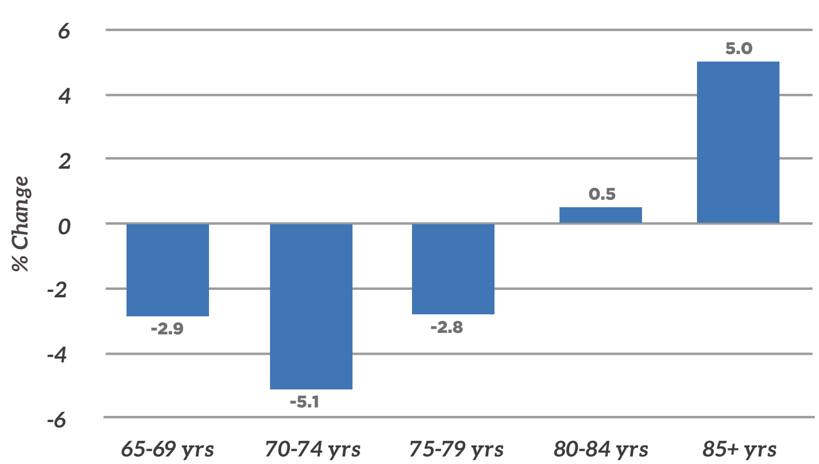

Figure 5: Percent change in proportion of owner-occupiers among older people 2001-2013 (NZ Census)

THE ACCIDENTAL DEVELOPER

Landlords have two main options when dealing with an earthquake prone building: either sell to a developer, or become an accidental developer

BRENT NAHKIES

Once The Building Act (Earthquake Prone Buildings) Amendment Bill is passed later this year, owners of earthquake-prone buildings will need to carefully consider their options.

Amendment Bill

After the Christchurch earthquakes the government commenced a review of the way local authorities managed earthquake-prone buildings. As a result of this review they introduced The Building Act (Earthquake Prone Buildings) Amendment Bill into Parliament in December 2013.

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Priority buildings located in a high or medium risk zone must be identified and strengthened within half the normal time allowed.

The Bill was subject to a lengthy submission and review period before having a second reading in Parliament on 17 February 2016. It is now close to becoming law and should be passed later this year.

Submissions to the Bill have been extensive and have highlighted a number of complex issues. The changes proposed by the legislation have been promoted by the government as an attempt 'to balance the protection of citizens from earthquake-prone buildings: the cost of strengthening, upgrading, or demolishing buildings; and the protection of heritage buildings.' Whether the Bill achieves this balance is still the subject of strong debate. But what is not in doubt is the significant effects it will have on territorial authorities (TAs), building owners, building users and the public.

Key provisions in the Bill include:

- Requiring that all TAs must identify the earthquake-prone buildings in their locations within designated timelines
- That earthquake-prone buildings be identified and listed in a public register
- If an earthquake-prone building is having 'significant' alterations, in order to be granted a building consent the owner must also carry out any required seismic work
- That earthquake-prone buildings be strengthened or demolished by their owners within designated timelines
- That the country is divided into three seismic risk zones designated as high, medium and low, with the time allowed for the identification and strengthening of earthquake-prone buildings to vary according to the seismic zone
- In the high risk zone there will be five years to assess and 15 years to strengthen
- In the medium risk zone there will be 10 years to assess and 25 years to strengthen
- In the low risk zone there will be 15 years to assess and 35 years to strengthen
- Several categories of 'priority' earthquake-prone buildings have been created.

Priority buildings

Priority buildings located in a high or medium risk zone must be identified and strengthened within half the normal time allowed. Priority buildings include education and hospital buildings, emergency response buildings, civil defence buildings and buildings located on transport routes of 'strategic importance' as identified by a TA.

In addition unreinforced masonry buildings that adjoin a public road, footpath or other thoroughfare identified by the TA as having 'sufficient vehicle or pedestrian traffic' will also be put in the priority category.

Options for owners

Once an owner has had their building identified as an earthquake-prone building they will have from 7.5 years to 35 years to either strengthen or demolish, depending on their location and whether the building is a priority building. They should therefore seek help from advisors and carefully consider their options.

The option to demolish their building may be a more financially feasible one than carrying out a seismic retrofit. However demolition costs can be substantial and need to be factored into the decision. Demolition may unlock development potential lying dormant in a site or it may be a poor alternative where the underlying land value is low in comparison with the demolition costs. This is likely to be the case for many properties located in some provincial towns where there is little effective demand for new buildings.

The owner may retrofit their building so that it attains more than one-third the strength required by the current code and thus ceases to be earthquake-prone. To 'stack up' financially the difference between the market value of the property 'as is' and the market value 'after strengthening' should be positive and exceed the costs of retrofitting, thus providing a positive development margin.

The owner may choose to defer carrying out any seismic work, although the ability to defer will be limited by the deadlines imposed by the legislation. This is only an interim strategy before one of the other options must be chosen. A potential advantage of this approach is that there is likely to be more accurate cost and market data available to use in feasibility studies once seismic retrofit projects have been completed by those 'early movers' quick to comply with the legislation. There is also the potential to benefit from improved technical solutions and construction efficiencies resulting from the ongoing research into seismic retrofits.

Demand for materials, contractors and design consultants may also be less in future years than is currently the case. Any earthquake-related stigma may also dissipate over time. There are also potential disadvantages of deferring – it may be difficult to retain tenants and the costs of insurance may be high or even unobtainable. Potentially high holding costs associated with this option may cause financial difficulties for some owners.

A fourth alternative for the owner is to sell the property, but they may achieve a low sale price if there is market stigma attached to their building or if there is an oversupply of similar properties on the market. It is possible that banking covenants may force this option on some owners if they do not have sufficient equity or debt servicing to satisfy a lender. As a result a mortgagee sale could be triggered. One advantage of selling is that it avoids an owner being forced to become an 'accidental' developer.

Market stigma attached to an old, but strengthened, building can occur. Such stigma can be hard to measure and varies over time, depending on perceptions relating to earthquake risk.

The accidental developer

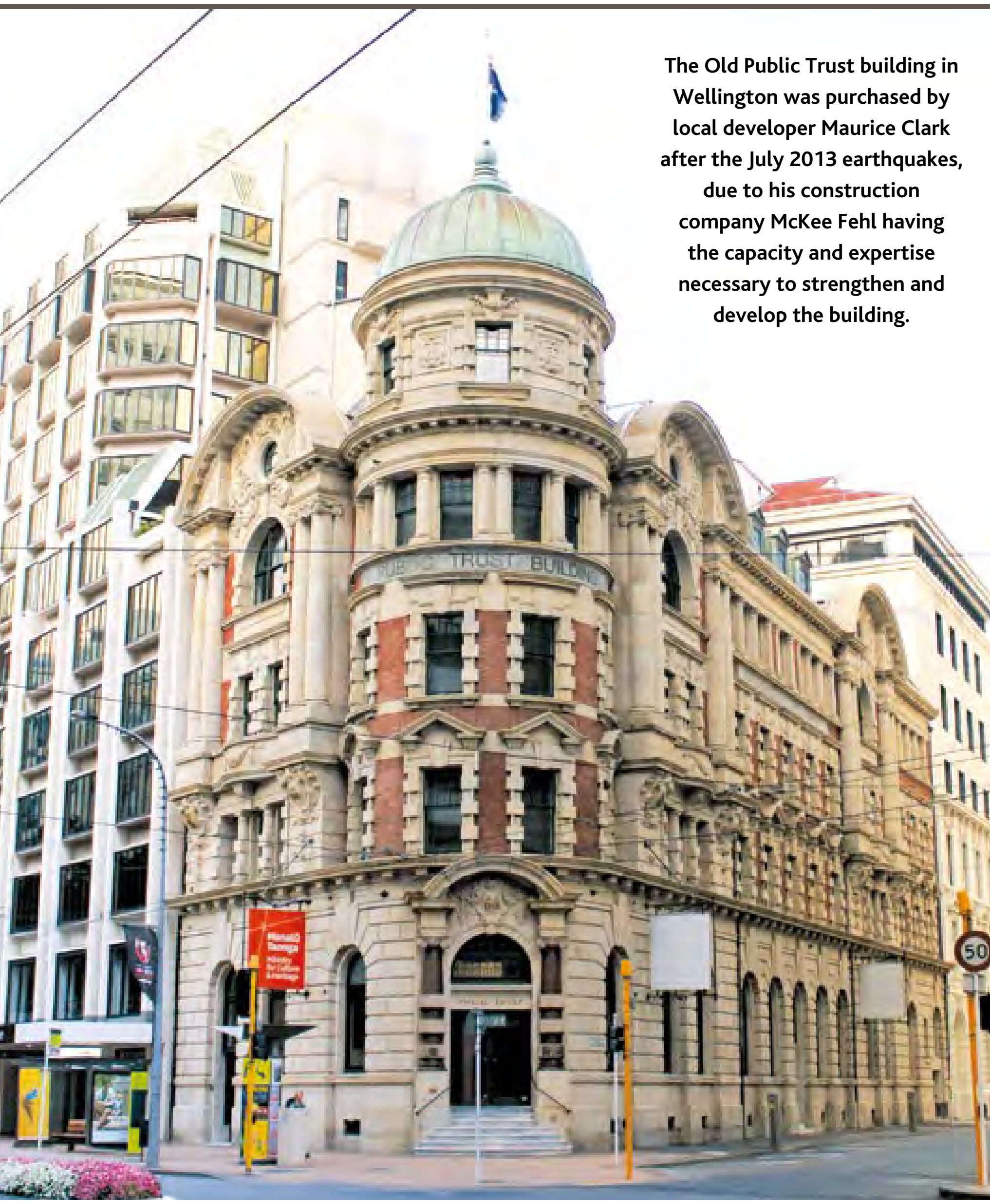
In the case of a 'normal' development the role of the developer is a voluntary one. In the case of mandatory seismic retrofits the role of developer is forced on the owner regardless of their resources and experience. Lack of both the knowledge and the capital required to undertake a development will be a severe handicap for some owners. For these accidental developers, completing an accurate feasibility study will be a challenge in itself.

Estimating the cost of retrofitting old buildings is usually harder than estimating new build costs. Existing building plans may be incomplete or missing and the condition of old buildings can be hard to assess. Estimating the timeframe to carry out retrofit projects can also be difficult. One well-publicised example of this is the Majestic Building in Wellington, which was initially expected to cost $35 million to retrofit, but is now expected to cost $83.5 million. However part of this is due to an increase in the desired strength level.

A major issue with estimating seismic retrofit costs is correctly defining the scope of the project so that all costs are accounted for. The structural engineer often takes the lead role in designing the seismic retrofit, with the choice of upgrade solution based around optimum structural design. This focus on the structural elements of the project can lead to a sub-optimal solution if too little attention is paid to the non-structural components of the seismic upgrade project. There is a danger that total project costs are either underestimated or are higher than they need to be. Case study research has found that the structural costs may account for as little as 25% of the total project costs for some retrofits.

Accurately estimating the completed value of the development can also be difficult. Market stigma attached to an old, but strengthened, building can occur. Such stigma can be hard to measure and varies over time, depending on perceptions relating to earthquake risk. Where there is a high proportion of earthquake-prone buildings the results of mandatory seismic retrofitting may significantly change supply and demand for property. For example, the price of land might be reduced by a flood of redevelopment sites released to the market due to widespread demolition of earthquake-prone buildings.

The owners of earthquake-prone buildings must decide the level of earthquake strengthening that must be achieved. As a minimum, 34% of the current code must be achieved to comply with the proposed legislation but it may be desirable to go higher. For example, tenants may require a higher level before they are willing to lease a building. This has been the case where corporate tenants have been concerned about their obligations under the Health and Safety in Employment Act. Despite a 'Position Statement' issued by WorkSafe New Zealand stating that they will not be enforcing higher standards of earthquake resilience than that required by the Building Act, many tenants have wanted buildings to be strengthened to 66% of New Building Standard (NBS) or higher.



The Old Public Trust building in Wellington was purchased by local developer Maurice Clark after the July 2013 earthquakes, due to his construction company McKee Fehl having the capacity and expertise necessary to strengthen and develop the building.

Going to higher levels also provides a degree of future proofing as it may allow for a change of use to occur in the building without triggering the need for additional strengthening. Current legislation requires a building undergoing a 'change of use' to be brought up to the standard of a new building 'as near as reasonably practicable'.

Heritage issues

When considering their options some owners have the added complications if their building has heritage value. Retrofit costs for heritage buildings tend to be higher due to the need to make the earthquake strengthening work as unobtrusive as possible. The option to demolish heritage buildings will require consent from the TA and the difficulty of obtaining this will vary, depending on the heritage status of the building and the specific planning rules that apply.

It has been expected that the health and safety requirements of the Building Act would 'trump' heritage protection controls imposed by the Resource Management Act, leading to the demolition of heritage buildings. However recent case law relating to the Harcourts Building in Wellington has cast some doubt about this. The owner of this building sought to demolish it after it was deemed to be an earthquake-prone building and his application for a resource consent was declined. An appeal was made to the Environment Court and this was dismissed. However this decision was then successfully challenged in the High Court, which remitted the case back to the Environment Court for a new hearing. The Environment Court re-heard the case and once again refused permission to demolish.

The situation with the Harcourts Building highlights the uncertainty over the demolition option for many building owners with earthquake-prone buildings that have heritage value. The Harcourts Building case also highlights the tension between the Resource Management Act, which seeks to protect heritage, and the Building Act, which seeks to promote a safe built environment.

Concluding comments

Once the proposed legislation is passed those owners with earthquake-prone buildings will need to carefully consider all four options of defer, sell, demolish or retrofit. They will require the help of a number of design and property consultants in order to adequately test the feasibility of their different options.

In projects where the non-structural costs are significant, a range of design expertise should be employed early in the design concept stage and the lead designer should not necessarily be the structural engineer.

The 'devil' will be in the detail of the legislation, with much of this detail still to be fully worked through by the legislators. For example, it is far from clear how many buildings will be classified as 'priority' buildings or how liberal TAs will be in applying potential exemptions relating to fire and disability upgrades or the seismic work itself.

Also, the question of introducing tax changes and incentives still remains unresolved and has the potential to alter the feasibility 'equation'.

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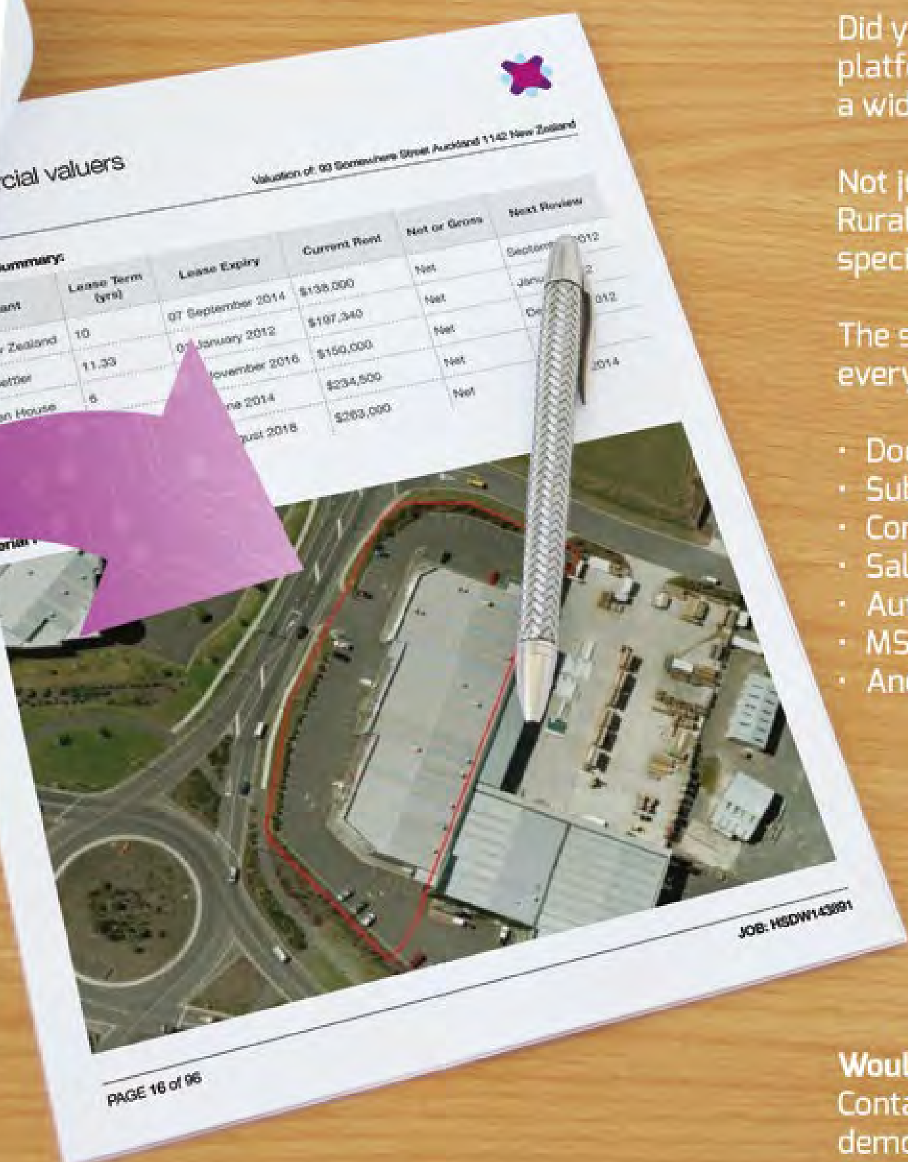

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Innovative precinct

SPARKS INNER CITY REVITALISATION

HON STEVE CHADWICK, MAYOR OF ROTORUA

Eat Streat by night. Made from local radiata pine, the structure came highly commended at the 2015 Timber Design Awards

At the lake end of Rotorua's central city spine is a vibrant, bustling, colourful dining precinct which has launched a collaborative revitalisation of the 'heart of the city'.

Eat Streat

Eat Streat, established as an al fresco dining area, involved taking over a block of the central city's Tutanekai Street and closing it off to traffic. It was trialled as an open air dining area for a time before construction of the covered area, which features a central walkway through to the lakefront, retractable roofing, wood and steel architectural features and geothermal heating underfoot, creating a year-round destination.

'Revitalising our inner city was a priority for residents and business sectors when we developed our shared 2030 vision for Rotorua,' the district's Mayor, Steve Chadwick says. 'Eat Streat and the inner city are reflective of a district-wide resurgence that's put Rotorua back on the map and is sparking the interest of investors and businesses.'

Revitalising the inner city and developing Rotorua's economic base by growing existing and attracting new businesses are top priorities. The $2 million Eat Streat upgrade was a huge undertaking and made for challenging times for businesses operating in the space. Since Eat Streat has opened new premises have been established there and others have changed hands. It is a popular, bustling hub most nights, a gathering place with a good selection of restaurants and bars and regular live music adding to the convivial atmosphere.

Constructing the dining precinct involved collaborating with restaurateurs and bar owners operating in the lakefront block. It required investment and commitment on their part, initially for the trial and later working through the final detailed design.

Revitalisation of the wider inner city is being led by councillor Karen Hunt and local business people like long-time retailer Mike Steiner who, supported by council, are collectively shaping how they want the heart of the city to look and develop.

A popular weekly night market closes part of Tutanekai Street every Thursday night. Attention is now turning to the central point of the inner city, previously known as the City Focus, which is being opened up and revamped to create a new focal point.

Green corridor

A 'green corridor' through the central city for cyclists and people using other self-propelled modes of transport connects two iconic parks on the CBD fringes – the geothermally active Kuirau Park and the Tudor-style Government Gardens. It provides links to the lakefront around the geothermal shores of Lake Rotorua and, beyond that, the world-renowned walking and mountainbiking tracks of Whakarewarewa Forest.

Revitalising our inner city was a priority for residents and business sectors when we developed our shared 2030 vision for Rotorua.

Economic growth

'We've gained a lot of traction since establishing Eat Streat,' the Mayor says. 'We're very well placed to make the most of our positive economic position and the progress we're making is being noticed.'

Independent economic statistics from Infometrics and BERL present a promising picture of Rotorua's economic future with the economy growing, retail spending rising, inner city foot traffic increasing, fewer empty shops, increased household incomes, an improving real estate market and an increasingly attractive investment environment.

'We've also turned around 10 years of population decline in the past few years and the district is now considered one of the top regions in the country for investment. Evidence of Rotorua's positive direction is everywhere. We've got new buildings going up, new businesses moving in, new ventures being launched, existing businesses relocating to the central city and pop-up shops becoming permanent,' the Mayor says.

Outside the CBD, commercial developments and shopping centres are sprouting up around the city and businesses are investing in improvements and expansions. Visitor statistics are also on the up, reinforcing Rotorua's position as one of New Zealand's premier tourism destinations, boosted by major high-profile events and the city's popularity with mountainbikers.

'In terms of inner city revitalisation, success for us is the heart of our city becoming a destination in its own right,' Mayor Chadwick says. 'While there's more work to be done, Eat Streat has provided the impetus. The dining precinct represents the promise of much more to come. It's an exciting time to be in Rotorua.'

Hon Steve Chadwick
Mayor of Rotorua

HOME AFFORDABILITY **UPDATE**

By comparing the average weekly earnings with the median dwelling price and mortgage rate, Massey University's quarterly survey for March confirmed an overall 9.2% annual improvement in national housing affordability.

The following infographic shows the affordability changes for the year to March 2016:

Northland: 6% improvement

Auckland: 3.1% improvement

Waikato and **Bay of Plenty:** 0.6% improvement

Hawke's Bay: 1.4% improvement

Taranaki: 9.7% improvement

Manawatu and **Whanganui:** 11.3% improvement

Wellington: 4.9% improvement

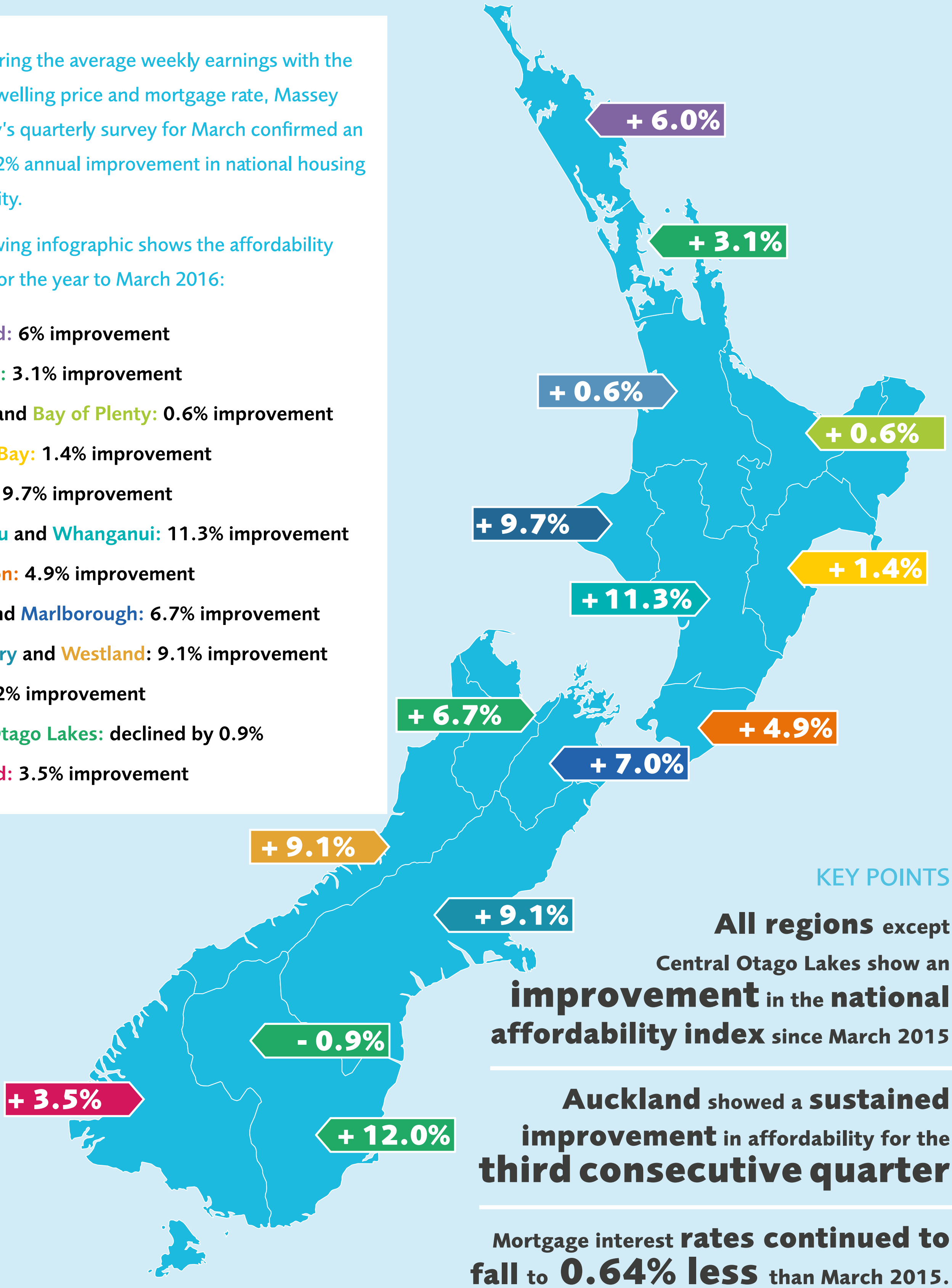
Nelson and **Marlborough:** 6.7% improvement

Canterbury and **Westland**: 9.1% improvement

Otago: 12% improvement

Central Otago Lakes: declined by 0.9%

Southland: 3.5% improvement



KEY POINTS

All regions except Central Otago Lakes show an **improvement** in the **national affordability index** since March 2015

Auckland showed a **sustained improvement** in affordability for the **third consecutive quarter**

Mortgage interest **rates continued to fall** to **0.64% less** than March 2015.

** The Massey University survey is the longest running survey of New Zealand house prices, accumulating data since 1998.*

COMPARISON VALUATION METHOD ONLY AS GOOD AS ITS INPUTS

JEDRZEJ BIALKOWSKI

Any valuation method requires appropriate inputs. Are properties selected for the comparison method actually comparable?

Valuers' use of the comparison method

The comparison method is the main approach used by New Zealand valuers to appraise the value and rent for commercial properties. Its relatively simple set-up and the representativeness of current market conditions are put forward as arguments for applying the method. On top of that, the fact that the method does not take into account trends and expected inflation seems to make it independent of economic forecasts. Not surprisingly, the last large survey of New Zealand valuers revealed that 94% of them recognise it as the best method. However at least 63% of these valuers only use the comparison method for the rental assessment process.

There is no doubt that the comparison method has its merits, but this approach is only as good as the inputs to it. In other words, if the properties selected for comparison are not actually very comparable with the property which is the subject of a rental assessment (called a target property for convenience), then the whole process may lead to miscalculated estimates. The success or failure depends on the definition of 'similar'.

There are a number of reasons why the selection of similar/comparable properties may be difficult:

- A valuer may operate in a town with a very low number of new leases per year so that overall the amount of available information is low

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- A valuer may have limited access to the information on recent leases, even though there may be a sufficient number of recent leases
- There may be disagreement between valuers on what similarity in terms of size, location, age, etc really means.

As part of a research project, I conducted a survey among 470 valuers with a specialisation in commercial and industrial property. The sample of valuers and survey respondents is free of bias toward any region of New Zealand. A few survey questions were designed to identify how valuers define similarity between properties in terms of those variables. Valuers' definitions were used to evaluate the quality of property selection for the comparison method as later described in this article. Readers interested in more information about the online survey should refer to the author's previous article published in the Autumn 2016 issue of *Property Professional*.

This article seeks to answer whether valuers can deliver what they believe to be the right selection of properties for the comparison method. Moreover, it suggests changes in the market set-up which could improve the quality and efficiency of valuers' work.

Data

The above questions cannot be answered without access to rental assessment reports. My analysis is based on 34 rental reports prepared for seven properties over the 1995-2015 period. All those properties were located in the industrial part of Christchurch-Middleton and Sockburn and were owned by one entity. On average these commercial properties include 1551 sqm of warehouse space, 207 sqm of office/showroom space and 38 carparks.

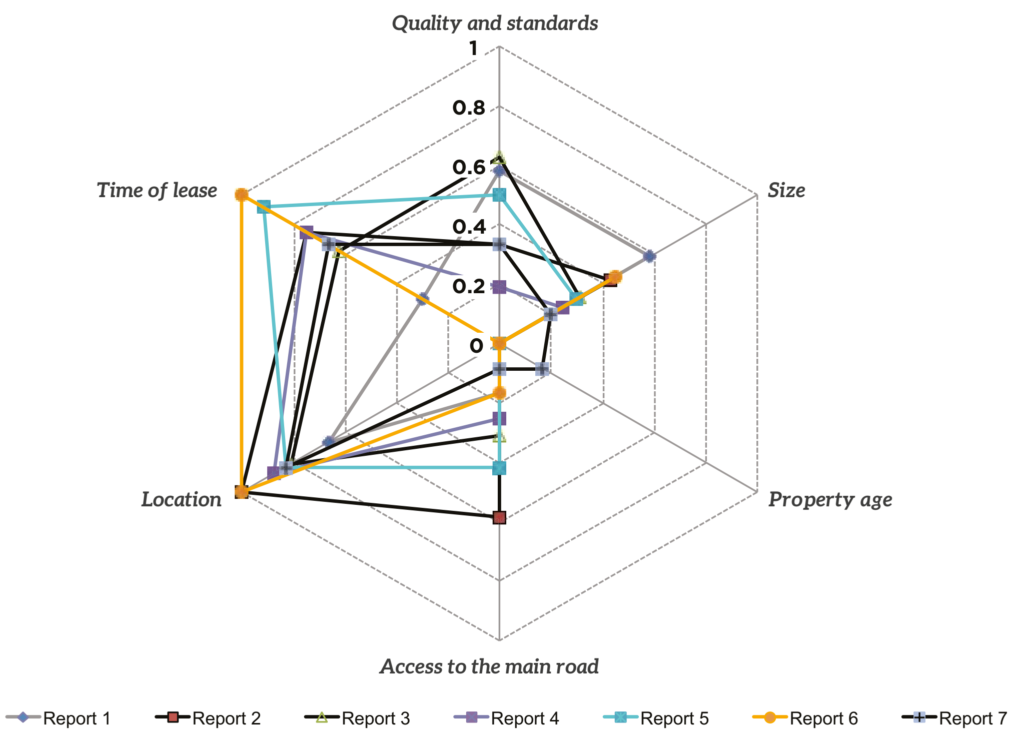
The number of reports per property varied between three and seven with a median and mean of 5.0 and 4.85, respectively. Almost all examined rental valuation reports applied only the comparison method. The number of selected properties varied between six and 17, with a mean of 10 and a median of eight. The reports were prepared by different valuers working for different companies, thus ensuring that their scrutiny was not biased towards any firm or valuer.

Methodology

To define the comparability of properties, it is necessary to identify the key criteria characterising commercial real estate. To do this in an unbiased way, an online survey was conducted amongst 470 New Zealand commercial property valuers. Their contact details were manually extracted from the members' directory of the Property Institute. The response rate for the survey was 32.3%.

The survey revealed that New Zealand valuers recognised the following property-related characteristics as the most important criteria for selection of comparable properties in their rent assessment process: 1) location, 2) size of a property, 3) time of lease (period between date of the valuer's report and that date when

Figure 1: Summary statistics for the similarity index estimated for seven rental assessment reports prepared for one property



> *One of the interesting results obtained for the examined properties is that properties selected as input for the comparison method were either not matched in terms of age or age was ignored by valuers.*

a rental of the comparable property was established), 4) age of property, and 5) quality and standard of the property.

An access to a main road was mentioned, but recognised as less important. The survey also showed that valuers consider other factors such as economic condition, lease terms and incentives, and NBS rating. However these secondary criteria were not acknowledged by most of the respondents. There is also no information related to these criteria in the reviewed rent assessment reports. The results of the survey are summarised in **Table 1**, which shows how valuers define the similarity, semi-similarity and incomparability of two commercial properties.

Figure 2: The arithmetic average of the similarity index for all seven properties

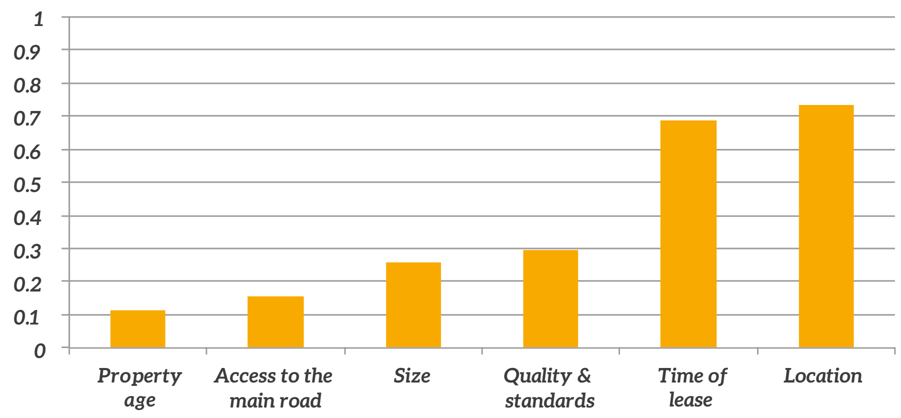


Table 1: Definitions of comparability for New Zealand commercial properties

CRITERIA	SIMILARITY	SEMI-SIMILARITY	INCOMPARABILITY
Time of lease	The period between the date of the selected property's lease agreement for comparison and date of the target property's rental assessment is less than 12 months.	The period between the date of the selected property's lease agreement for comparison and date of the target property's rental assessment is more than 12 months but less than 24 months.	The period between the date of the selected property's lease agreement for comparison and date of the target property's rental assessment is more than 24 months.
Location	The distance between two properties is within a 2 km radius.	The distance between the two properties exceeds 2 km but is less than 5 km.	The distance between the two properties exceeds 5 km.
Size	The difference between the target property and selected property does not differ more than 20%.	The difference between the target property and selected property for comparison does differ more than 20% but less than 50%.	The difference between the target property and selected property for comparison differs more than 50%.
Access to the main road	Both properties have the same access. In other words if both properties are located on main road or back street (a 0–1 variable).	Both properties have the same access (a 0–1 variable).	Both properties have a different access (a 0–1 variable).
Property age	The difference in the age of the main building of the target and selected property for comparison is less than 20 years.	The difference in the age of the main building of the target and selected property for comparison is more than 20 years but less than 30 years.	The difference in the age of the main building of the target and selected property for comparison is more than 30 years.
Quality and standards	The selected and the target properties have nearly the same standard and quality.	There is some similarity in terms of standards.	The quality and standards of the selected property for comparison is very different or if the quality and standards of the selected property for comparison is not mentioned in the rental assessment report.

Table 2: Summary statistics for the property similarity index estimated for 34 rental assessment reports

	MEAN	MEDIAN	MINIMUM	MAXIMUM	RANGE
Time of lease	0.35	0.35	0.35	0.35	0.35
Location	0.75	0.79	0.16	1.00	0.84
Size	0.26	0.26	0.12	0.45	0.33
Access to the main road	0.18	0.17	0.14	0.58	0.44
Age	0.70	0.71	0.19	1.00	0.81
Quality and standards	0.35	0.76	0	0.72	0.72

The above definitions of the comparability of two properties are expressed in different units, and are a combination of quantitative and qualitative measures. To make them comparable, a similarity index was devised to express the same units independently for the different categories (size, location, etc). The index includes six categories: size, location, time of lease, age of property, access to the main road and quality of the property. The similarity index has a value of:

- 1 – if the selected and the target property are matched in terms of the above categories
- 0.5 – if they are sufficiently comparable
- 0 – if the selected property differs too much from the target property
- 0 – if there is not enough information on the selected property.

The similarity index is calculated for the whole report for each category (size, location, age, etc), averaged across all the selected properties in a given report. The reports with a score close to 1 indicate that a valuer's selected properties as input for the comparison method are matched with the target property that is the subject of the rental assessment process. On the other hand, a score close to 0 indicates that a selection is very poor and that the application of the comparable method will almost certainly lead to a misleading estimate of an appropriate rent.

Results

To evaluate the quality of valuers' property selection as input for the comparison method, the above described similar index methodology was applied to all seven properties. **Figure 1** (page 32) presents the mean of the similarity index for each category across seven rental assessment reports prepared between 1995 and 2015 for one property only. The figure is a spider graph – the larger the web, the better the quality of a report. The analysis of reports shows that in categories such as location and time of lease the similarity index is close to 1. Thus in the case of the examined target property, valuers on average select properties in close enough proximity and which had recent rent established.

On the other hand, in the case of categories such as property size and its quality and standards, the performance is below median (less than 0.5) for all reviewed reports. It means that the valuers of the reviewed reports, despite their intention, were unable to select properties that are similar for those two criteria. One of the interesting results obtained for the examined properties is that properties selected as input for the comparison method were either not matched in terms of age or age was ignored by valuers (the value of the similarity index is close to 0).

To sum up, the analysis of rental assessment reports prepared for one property shows that in four out of six categories selected properties were far from a good match with the characteristics of the target property.

Table 2 and **Figure 2** (previous page) show that the similarity index for all seven properties with 34 rental assessment reports are much in line with those reported above. That is, a good selection of properties in terms of location and recent rent was established, but a rather poor selection in terms of size and attention to quality and standard. As with the first property, valuers do not pay much attention to a main road or back street location or property age.

The results of analysed rent assessment reports confirm that valuers of the reviewed reports were not able to select comparable properties in line with the common agreed definition of comparability, with the exception of good performance in the selection of properties with a similar location and date of lease. Their poor performance is mostly related to property size and attention to property quality and standards.

Not surprisingly, when the surveyed valuers were asked if comparable properties in rent assessment reports prepared by the tenant's valuer versus comparable properties in reports prepared by the landlord's valuer are the same, a 50% or less overlap was reported by 87% of the surveyed participants. The lack of overlap may be at least partially explained by a lack of uniform information on recent leases available to valuers, and so their information is limited to their past valuations or valuations available in their company.

As a result, they have to use as input for the comparable method properties not matched with the target property. It may also be due to the fact that valuers are engaged in client advocacy. A few of the respondents in the survey stated that some valuers sometimes act as advocates for their clients – either the tenant or the landlord.

Concluding remarks

The analysis of 34 rental assessment reports prepared for seven properties over a 20-year time span revealed that in some key property characteristics, such as size and property age and quality and standard, New Zealand valuers struggled to find matched properties. As a result, considering not-comparable properties as input into the comparison method may lead to an incorrect rent estimation.

The lack of sufficient information or the size of the market in which valuers operate are at least partially responsible for the current situation. I believe that the introduction of a comprehensive database including detailed information about rents for recent leases and renewed leases may improve the quality of valuers' performance. The benefits of such a database are two-fold. First, the database would bring more transparency and reduce the level of disputes amongst valuers representing tenants and landlords. Second, its introduction could reduce the problem of client advocacy, which is recognised by valuers as one of the challenges facing the profession.

INTERNATIONAL TRENDS FOR MULTI-STOREY TIMBER BUILDINGS

ANDY BUCHANAN

There is growing world-wide interest in multi-storey timber buildings, especially for residential occupancies. New timber buildings in London, Vancouver and Melbourne are examples of this trend.

The move to multi-storey timber buildings is encouraged by a range of drivers such as the environmental benefits of sustainability, renewability and carbon storage. Other benefits include rapid construction, lightweight structure and lower costs.

As a sign of the international interest, the governments of both Canada and the United States have sponsored design competitions for timber buildings of 10 or more storeys. These competitions will lead to construction of new buildings in New York, Portland, Ottawa, Quebec and Vancouver.

> ***The governments of both Canada and the United States have sponsored design competitions for timber buildings of 10 or more storeys.***

Professor Andy Buchanan is a Principal at PTL Structural Timber Consultants based in Christchurch.

Young Hunter building in Christchurch – three-storey Pres-Lam construction

PHOTO: NICO BABOT – NICO.BABOT.EU

With increased pressure on affordability, it is safe to assume that the benefits of multi-storey multi-unit light timber frame buildings will soon be taken advantage of in New Zealand.

Types of timber construction

There are several different types of construction for multi-storey timber buildings using a range of different timber materials. The most traditional type of timber building is light timber framing, used for houses all over New Zealand, with studs and joists of sawn timber, plywood bracing and plasterboard linings. This type of timber construction can be used for multi-storey buildings up to seven storeys, optimised with prefabrication for rapid erection. These buildings are essentially multi-storey houses, but with special structural design for the greater height requirements.

Multi-storey timber frame construction is taking off in areas of the world which rely on light timber frame housing, especially in the United States and Canada. Australia has recently changed their building code, adopting a deemed-to-satisfy solution in timber buildings up to 25 m in height allowing for about eight storeys. This country has been slower on the uptake of these techniques, perhaps due to the desire for lower-density suburban housing. However, with increased pressure on affordability, it is safe to assume that the benefits of multi-storey multi-unit light timber frame buildings will soon be taken advantage of in New Zealand.

A rapidly emerging new form of timber construction is 'massive timber' or 'solid wood' construction, which uses large prefabricated timber panels for rapid erection. The prefabricated timber elements can be manufactured from LVL (laminated veneer lumber), glulam (glued laminated timber) or CLT (cross laminated timber).

CLT is made in large solid panels like 'plywood on steroids', where the glued layers are solid sawn timber boards running perpendicular to each other. Hence a three-ply panel may be 60-105 mm thick and a seven-ply panel may be up to 200 mm thick. Panels are cut to an accurate shape by computer-controlled cutting machines. New Zealand's local manufacturer is XLam NZ Ltd in Nelson, with most of the world's production being done in large facilities in North America and Europe.

LVL is made from thin veneers of timber, peeled from large logs, and glued together like plywood, but with all the veneers having the same grain direction to greatly increase the strength and stiffness. LVL is made in a continuous process with huge panels 1.2 m wide, up to 100 mm thick and 20 m long. New Zealand has an established history of the production of LVL, with three manufacturers (Carter Holt Harvey, Nelson Pine and Juken).

Glulam is made of finger-jointed sawn timber boards which are glued together to obtain straight, curved or tapered timber elements. Member lengths of up to 34 m are available in New Zealand from manufacturers such as TimberLab Solutions, Hunter Laminates, Kanuka, Techlam, Prolam, Laminated Beams and others.

Structural form

Tall residential buildings tend to be of simple structural form because of the large number of internal walls and the small spans of the floors. All the walls can be used for lateral bracing and the prefabricated floor panels are designed as structural diaphragms. This applies to both light timber framing and CLT solid wood construction.

Tall commercial buildings need large clear spaces for open-plan offices, which results in a much smaller number of structural walls and much larger spans for the floor panels. Such buildings are commercially feasible with modern timber materials and innovative construction methods, such as the Pres-Lam system seen in the recent Trimble Navigation and Young Hunter buildings in Christchurch and the Massey University building in Wellington.

New types of connecting devices also add to the competitive cost now achieved by tall timber buildings. There is a huge range of trusted options now available including long fully threaded screws, timber rivets, shear and hold-down brackets, and post-tensioning systems.

With the right project teams and motivated clients it will not be long before many more great Kiwi timber buildings become a reality.

Murray Grove apartment building in London – eight-storey CLT construction

Apartment buildings in Vancouver – four-storey light timber framing

Consultants

Developers or property owners considering tall timber buildings need expert professional advice from their architects and structural engineers. The new Christchurch consulting company, PTL Structural Timber Consultants, is enabling the design and construction of several tall timber buildings around the world including a nine-storey residential building in Sydney and a 15-storey commercial building in Ottawa.

PTL is working with some big players in the New Zealand construction industry to show the feasibility of prefabricated light timber framing for five or six-storey apartment buildings in New Zealand cities. They have assembled a team of multi-disciplinary consultants to ensure that high quality goals are met, with attention to fire safety, acoustic performance and rapid construction while maintaining competitive costs.

Thanks to recent advances, New Zealand no longer has to look longingly overseas thinking "why not here?" With the right project teams and motivated clients it will not be long before many more great Kiwi timber buildings become a reality.

Forte building in Melbourne – nine-storey CLT construction

IRRIGATION SCHEMES
AND THE DISTRICT VALUATION ROLL

CALLUM TAYLOR

In 2014, irrigation schemes were added to a number of territorial authorities' district valuation rolls (DVRs). The DVR records rating valuations for all properties within a district and is used for setting rates by councils. This article provides a background to the addition of these properties to the DVR as utilities and the two valuation methodologies currently being investigated for valuing both the scheme and individual farms within it.

Rating valuations are prescribed under the Rating Valuations Act 1998 (the Act) and the Rating Valuation Rules 2008 (the Rules). The Act provides for a nationally consistent, impartial, independent and equitable rating valuation system. The valuations are completed by valuers such as Quotable Value and independently audited by the Office of the Valuer General. All properties, referred to in the Act as rating units, must be valued and included on the DVR of each district.

A Court of Appeal decision in the case of *Telecom Auckland Ltd vs Auckland City Council* [1999] NZLR426 found that network utility assets, excluding machinery, have a legal interest in land and are properties that should be included on the DVR. In 2014, it was discovered that irrigation schemes were not included on the DVR in many districts. In accordance with case law, the Valuer General then directed rating valuers to add these to the DVR during the general revaluations undertaken in 2014.

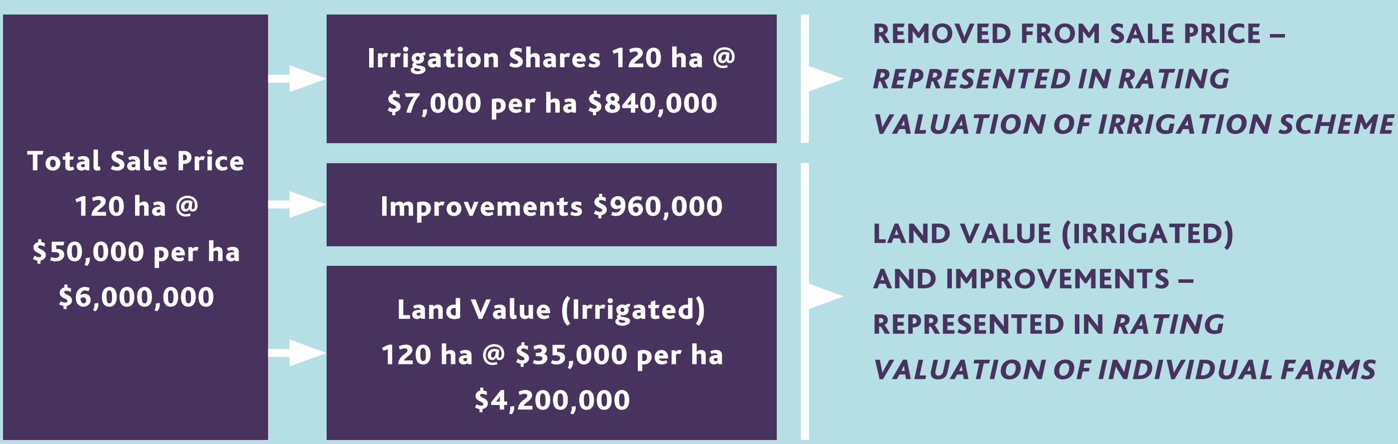
Irrigation schemes fall under the definition of a network utility operator under section 166(d) of the Resource Management Act 1991. In turn, the Rules require hat the utility networks identified under this Act are to be classified as rating units and need to be valued for inclusion on the DVR.

Valuation Methodology 1

The Rules currently set out the methodology for valuing utilities such as irrigation schemes. The methodology is optimised depreciated replacement cost (ODRC) and valuations are subject to consideration of the potential profitability or service potential of the entity.

Farms that sell within an irrigation command area will generally include shares in the scheme. For rating valuation purposes the shares that relate to the scheme are removed from sale prices so that the remaining adjusted sale price relates to only the land, buildings and improvements, including on-farm irrigation networks. In this way the sale price attributes are separately identified and can be applied as appropriate to either the individual farm valuations or, in the case of shares, the value of the scheme as a network utility asset. This process avoids the potential for double dipping on rating values, as illustrated in **Figure 1**.

Figure 1: Split of irrigated farm sale for rating valuation purposes



Valuation Methodology 2

An alternate methodology that has been put forward by Irrigation New Zealand, a representative body of irrigation schemes, is enterprise value (EV). This is very similar to optimised deprival value (ODV), which is currently allowed in the rating valuation rules for valuing electricity lines businesses and gas distribution networks. EVs allow an income-based approach rather than the cost-based approach under ODRC and more directly build in the potential profitability, economic return and service potential of the entity.

Most irrigation schemes are farmer-owned cooperatives and therefore the farmers are the shareholders in the scheme and also its customers. As the shareholders are also the farmers who receive the water, the irrigation company generally sets their charges to be part of the scheme and receive water based only on the cost of its debt, cash operating costs and depreciation. This results in water being delivered to the farm (and the shareholder) at the lowest possible cost, consistent with the objectives of a cooperative ownership model.

These water and annual charges are the source of income for each scheme. As each scheme is different in terms of its debt structure and cash operating costs, the annual capital charge (the charge to continue to belong to the cooperative) and the annual water charge are different between each scheme. For example, old schemes built by the Ministry of Works have very low water and annual charges and conversely recently built schemes have comparatively high charges.

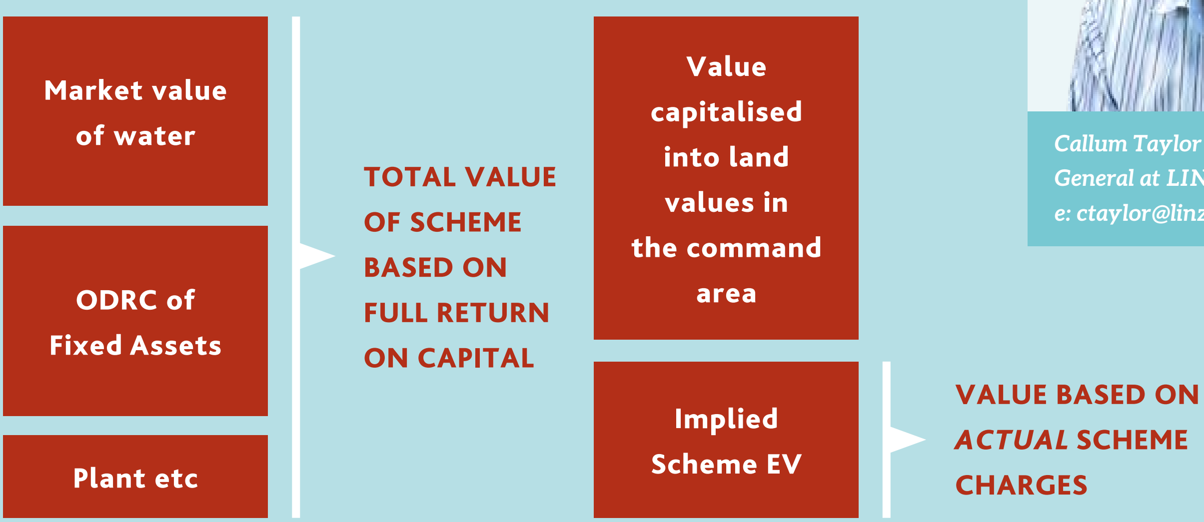
The market reaction to these facts is to build the relative cheapness of the water into the land values reflecting the market value of the water supply. In the examples above the scheme with low water charges will have much higher land values per hectare compared to the high water charge scheme. Ultimately, this reflects the different costs of production within each scheme area.

As the ODRC anticipates a commercial rate of return, and therefore commercially-based charges, it is not a natural fit with the cooperative ownership of irrigation schemes where only the shareholders receive the benefit of the water that the scheme provides. This benefit is then capitalised into land value with the rate of capitalisation dependent on the water and annual charges.

Under this methodology, the value of the irrigation scheme will drop when compared to the ODRC, and the land value of farms in the command area will be higher through incorporation of the water supply. Either way, there will be no overall loss of rating value to a council. The value of the water supply will either be reflected in higher farm land values or higher irrigation scheme values (but not both), depending on the valuation methodology adopted.

The difference in the commercial return is the point of difference between the ODRC and EV or ODV, as shown in **Figure 2**.

Figure 2: Example of value allocation between optimised depreciated replacement cost (ODRC) and enterprise value (EV)



Further investigation is required before agreement can be reached on which is the optimum valuation methodology for irrigation schemes. It raises questions about whether the share values being removed from farm land values are at an appropriate level and where in the valuation equation the market value of the water should ultimately be represented.

Ongoing discussion is occurring between irrigation industry bodies, irrigation scheme representatives, Quotable Value and the Valuer General's office with a few to resolving the issue in the next few months.

Irrigation schemes fall under the definition of a network utility operator under section 166(d) of the Resource Management Act 1991.

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FUTURE-PROOFING the CROWN OFFICE ESTATE

PAULA BENNETT

Streamlining and modernising the Crown office estate is not just about saving money and reducing the government footprint, but is also about supporting staff health and wellbeing, increasing productivity and delivering better public services for New Zealanders.

The Government Property Group (GPG), formerly known as the Property Management Centre of Expertise, is tasked with this work. GPG has delivered savings of more than $132 million to the government and taxpayers since its inception in 2011. It has also reduced the Crown office footprint by more than 152,000 sqm while improving service delivery to New Zealanders.

But, more importantly, GPG focuses on new ways of working with agencies, sharing buildings, facilities and resources where possible. The aim of these modern shared workplaces is to build more collaboration within agencies and across government departments. Smaller agencies have already reported reduced costs and better customer and staff experiences through sharing facilities such as reception, meeting rooms and kitchens.

The Hon Paula Bennett is the Minister for State Services, with responsibility for the Government Property Group which is tasked with reducing the government footprint and modernising the Crown office estate.

A test case for the modern workplace will be the revamp of the Auckland Crown office estate. With a number of leases coming up for renewal in the next few years, GPG has the perfect opportunity to create more accessible, safer and modern public services.

GPG is working with the State Services Commission Auckland Deputy Commissioner and Auckland Council to accommodate the city's complex requirements. The Auckland project also gives GPG the opportunity to look at new ways of delivering accessible public services for all. There is a lot of work to be done before any decisions are made, but GPG will be looking at the best delivery models.

GPG is also involved in the revitalisation of the Christchurch CBD and has developed guidelines to help agencies 'co-locate' (share accommodation and amenities), ensure staff and client safety, and keep private information secure. The innovative fit-out of the Christchurch Integrated Government Accommodation (CIGA) project takes on good practice workplace design. It is a test case for the way government agencies can co-locate.

It is also future-proofing the Crown estate so that agencies can easily adapt their workplaces without major cost, especially through periods of expansion and contraction. This includes lease terms that are more favourable to change of space in buildings, and design standards which promote a fit-out that is more generic and easily changed.

A test case for the modern workplace will be the revamp of the Auckland Crown office estate.

It is focusing on consistency across the estate nationwide that will allow agencies to easily move premises without the need for additional spending during the lifetime of the building, generally a minimum of 15 years.

It is also important to have quality fit-outs that support staff wellbeing and increased productivity.

GPG is a high-performing unit that is making the Crown estate more efficient and delivering savings for taxpayers. It will continue to ensure the Crown's commercial estate is modern and efficient and its workers are well-placed to support the best outcomes for all New Zealanders.

Through its work programme, it is on track to deliver savings of at least $110 million a year by 2023.

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- **ENHANCE YOUR PROFESSIONAL DEVELOPMENT** – *through our wide variety of career development programmes, webinars and seminars*
- **INVEST IN YOUR CAREER** – *with our growing career development opportunities including seminars, site tours, internships and study tours*
- **KEEP IN THE PROPERTY LOOP** – *with our regular research publications and quarterly magazine*
- **BOOST YOUR CREDIBILITY** – *be part of a membership body that represents your views on the issues that are vital to our industry*

'I chose property as a career because the industry is professional, consistently changing, and provides flexibility and support throughout my career.'

***Kate Fluker**, Registered Valuer at Colliers International and 2014 Commonwealth Games athlete (Mountain Biking).*

"Property valuation offers a great insight into the wider Property Industry and provides a gateway into a wide range of other property related professions"

***James Wilson**, Registered Valuer at QV in Auckland.*

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PROPERTY INSTITUTE

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Ian Hogg

Ian started his career as a professional footballer. In 2013 he transitioned to a property career, although football has remained a key part of his life. In this article, he discusses his decision to enter the property profession and the transferable skills he has learnt that have made the transition a success. Ian also provides insight into his current role on Auckland's City Rail Link (CRL) Project.

When I left school, I thought once you entered a profession you would continue in that line of work until retirement. I've since learnt in sport and business that it's vital to be adaptable and not limit yourself in terms of networking, training and professional development, as changing circumstances may lead you in a new career direction.

Before enrolling at Auckland University to study a Bachelor of Property, I was fortunate enough to represent New Zealand at the 2008 Beijing Olympics. After graduating, I was selected to compete in the 2012 London Olympics and the World Cup Qualifying tournament for the All Whites.

At this point, I was solely focused on a professional career in football. I then secured professional contracts with the Portland Timbers (USA) and the Wellington Phoenix. Having fulfilled a number of personal and professional sporting achievements, I decided at the age of 23 to embark on my career in property.

This presented its own set of unique challenges, such as adapting to a new corporate environment and learning new systems and processes. I found almost instantly that a lot of the skills I had developed through sport were transferable to the property industry. These included:

- Coachability – a willingness to learn
- Ability to handle pressure and adapt your strategy, while maintaining high professional standards
- Embracing different personalities, cultures and drawing on each individual's abilities and experiences to reach a mutual goal
- Good sense of discipline and competitiveness, while maintaining a sense of humour
- Passion for the profession.

"I chose and continue to work in property due to its challenging but enjoyable nature, problem solving, face-to-face dealings and the variety of work.

We are exposed on an almost daily basis to media commentary on salaries, job figures, job security and financial outlook. These factors certainly play a role in people's decisions about entering a profession, accepting a particular role or leaving an employer.

Traditionally, the common property career paths to enter in New Zealand have been valuation and property management, but this is no longer the case. There is now an expectation that a property professional will have the diversity of knowledge across multiple disciplines to keep up with the ever-developing property landscape in New Zealand and the multitude of issues faced daily.

Like many others, I chose and continue to work in property due to its challenging but enjoyable nature, problem solving, face-to-face dealings and the variety of work. For the past three years I have been fortunate to be working as a Property Specialist on the $2.5 billion plus CRL project. This role encompasses a range of property disciplines including property acquisition and negotiation, valuation, property management, development and project/programme delivery.

To date, I've been involved in the acquisition of 67 commercial properties and worked with more than a dozen businesses to relocate their operations out of the construction areas. In New Zealand, property ownership rights extend to the centre of the earth so subterranean land will need to be acquired for the CRL tunnels and underground stations along the route.

In preparation for the subterranean negotiation phase, I supervised the development of the subterranean draft survey package which is potentially the largest ever seen in New Zealand.

I've had a unique opportunity to participate in detailed due diligence processes, commercial mediations and court processes which involved the country's leading valuers and legal teams. The CRL is a city-shaping piece of infrastructure which has been over 80 years in the making. It will underpin the growth of the city and I'm glad to have been a part of its development.

Claire Burgess

Each year Lincoln University in Christchurch awards a top-performing property student with the Top Property Student Award 2015, a Property Institute sponsored award. This year Claire Burgess of Colliers Auckland won the award.

I was a competitive swimmer for 10 years, and hadn't initially planned a property career. My specialty events were the 50 m, 100 m and 200 m breaststroke and when I was 17 I won all three events at the 2011 New Zealand National Age Group Championships. Unfortunately, this same year I missed qualifying for the Commonwealth Youth Games to be held in the Isle of Man. However, this was to be a turning point in my decision making when leaving school.

Just 0.2 seconds separated me from achieving my dream of representing New Zealand. With this dream still firmly entrenched in my heart and determination to burn I embarked on a gap year to focus solely on swimming in the hope of representing New Zealand. During my downtime from training I was employed by David Smith Surveying Limited in Ashburton, and it was during this period I realised just how interesting a career in property could be.

My exposure to the industry during this time was definitely key to mapping my interest in property valuation. Despite David's attempts to convince me to study surveying I settled on valuation at Lincoln University. As life pans out, I never realised my New Zealand dream so I started at Lincoln at the end of 2012.

Claire received her award from Luke Van Den Broek, a member of the Property Institute Young Leaders Committee

"Most of my peers from the Lincoln property degree are now working in the property industry, although not one of us is doing the same thing which shows the vast variety of jobs available to graduates.

The property degree is tough in terms of workload and subjects studied, but I enjoyed my time at Lincoln and made some lifelong friends. After winning the Colliers Scholarship in 2014, and again in 2015, I carried out an internship with the company and was given the job of doing a commercial survey of all commercial office premises within the larger Christchurch CBD area. This definitely reinforced a desire to pursue a career in valuation once I was through university.

While I had travelled the country with swimming I had no real desire to be located in Auckland; a vibrant and bustling metropolitan city, the polar opposite of my rural upbringing. Little did I know that my first graduate job would in fact be in Auckland. Towards the end of third year I was offered a graduate position with Colliers International and I haven't looked back.

One of the great things about the property industry is the variety of jobs available. Most of my peers from the Lincoln property degree are now working in the property industry, although not one of us is doing the same thing which shows the vast variety of jobs available to graduates.

I sometimes wonder though if prospective students think the career options are limited to valuation and property management as the name of the degree denotes. This couldn't be further from the truth. There are so many property-related jobs out there, and I am sure the Lincoln property degree opens up a lot more doors than other degrees. It would also be good to encourage more girls into the property industry. While it is male dominated, property is a great career option for women and there are some amazing jobs out there.

The Property Institute of New Zealand Student of the Year Prize was established in 2000 and is awarded each year to the student completing the Bachelor of Commerce (VAPM) with the highest aggregate marks in the core VAPM 300 level courses. The prize has a monetary value of $500 and it is a condition of the award that the recipient joins the Property Institute of New Zealand.

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NOMINEES:

BENJAMIN GILL HOUSING PROGRAMME MANAGER AT THE NEW ZEALAND DEFENCE FORCE, WELLINGTON

Dedicated MBA student, passionate programme manager, social infrastructure nerd and Young Property Professional of the Year!

'It seems to me that it is no longer enough for the future leaders of the property sector to understand their field. They must be committed to broadening their skill base to include areas such as management finance, strategic management and (most importantly) communication skills. If I can develop these broader skills then I believe that I will be prepared to meet the challenges of leading a property organisation. No leader can achieve anything without the support of excellent professional networks and the Property Institute has been invaluable to me in helping to develop these. I would hope to be able to continue to give back to the Institute, so as to repay in some small way the significant contribution I feel that it is making to my future career.'

JAMES WILSON REGISTERED VALUER AND NORTHERN HOMEVALUE TEAM MANAGER AT QUOTABLE VALUE, AUCKLAND

Support @qvjameswilson for PINZ 2K16 Young Prop Pro Award. A passionate young leader, active member of the industry and mentor of graduates.

'I work closely with and manage a team of registered and graduate valuers who complete valuation services. An achievement I'm proud of is the establishment of a graduate registration programme, which provides a pathway for QV graduates to progress towards obtaining registration. I've relished the opportunity to introduce the programme and have had huge personal satisfaction in educating and supporting graduates. I'm heavily involved in the creation and presentation of our monthly QV House Price Index media release, providing commentary to various media outlets on the Auckland residential property market. This has enabled me to promote the value of our profession and develop a skill set that benefits me with my role as secretary of the Auckland branch committee, all of which will assist with my future in the property industry.'

JEREMY BALL SENIOR PROPERTY CONSULTANT AT THE PROPERTY GROUP LTD, HAMILTON

Diligent, tenacious, pragmatic. Property acquisition and disposal, project management.

Jeremy has considerable experience in the project management of large-scale property acquisition projects, and has been involved in a variety of property acquisition projects and feasibility studies for the NZ Transport Agency and various local councils. He stands out from his peers and competitors for the depth and breadth of his understanding and practical application of property law. A registered valuer who Jeremy deals with regularly notes that he is 'a leader among his peers and is well respected within the business community.' He was selected for the Property Institute's Leadership Program in 2013, and was heavily involved in the program's project for the promotion of careers in property to secondary school students.

KATIE GRINDLEY PROPERTY CONSULTANT FOR THE PROPERTY GROUP, AUCKLAND

Katie is a property consultant who is the northern region representative on the PINZ Board and contributes enthusiastically to the Auckland branch.

Katie is an invaluable asset to the property profession as a whole. She has been on the Auckland branch committee since 2013, assisting with the organisation of branch activities, work experience and representing PINZ at university functions. In 2015, Katie was voted as the northern region representative on the PINZ Board where she provides a voice for both the younger generation and a female property professional perspective. This included running focus group discussions in Auckland, Wellington and Christchurch around the proposed changes to the Valuers Act 1948 to gauge younger members' perceptions of the imminent changes and how these will impact on our industry going forward.

Additional categories to be awarded at the conference dinner include the Property Business Award, the Property Innovation Award,

LIAM ROONEY REGISTERED VALUER IN THE VALUATION & ADVISORY SERVICES TEAM AT JLL, AUCKLAND

A future leader and genuine good guy. #JLL is proud to have him on the #valuations team. #PINZ Young Professional of the Year!

'In the valuations industry, trust is the most important thing. Our clients put their faith in us. They trust that our work is of a high standard and that our numbers are right. I know how important it is to establish lasting relationships with my clients. At JLL, I work closely with Dale Winfield who is a national director in the Valuation & Advisory Services Team. The work we do in terms of valuing shopping centres is quite specialised. There would be only half a dozen people in New Zealand who are qualified to do it. I have been lucky enough to work on some really interesting significant projects, including Precinct's Commercial Bay development, which will replace the Downtown Shopping Centre.'

LUKE VAN DEN BROEK REGISTERED VALUER AND SOUTH ISLAND MANAGER FOR RATING VALUATIONS AT QUOTABLE VALUE, CANTERBURY

A young, ambitious and vibrant property professional. A proven innovative thinker and leader driving and supporting the Property Institute.

'I manage a team of 25 to deliver fair, equitable and accurate rating valuations in the Canterbury region. A key part of this role is inspiring, supporting and training young graduates who are the future of the industry. I believe I am developing people to be respected, contributing members of the property profession. My position on the PINZ Board has also exposed me to the workings of a board, including finances and budgets, governance procedures and the key issues facing the profession, all of which stand me in good stead should I be successful in holding other Board positions in the future. I aspire to be a future president of the Property Institute of New Zealand.

NATASHA SARKAR REGISTERED VALUER, CBRE IN AUCKLAND

Enthusiastic number cruncher, recognised contributor to CBRE & #NZproperty. Natasha is the ideal @PropInstitute #YoungPropertyProfessional.

Specialising in the valuation of major retail assets across New Zealand, Natasha uses her professional expertise to provide innovative, market-leading consultancy advice to shopping centre owners for major international retailers, including assisting Kiwi Property in securing New Zealand's first Zara and H&M tenancies. Universally respected by her colleagues and clients, Natasha was named Registered Valuer of the Year at the 2015 CBRE New Zealand Achievement Awards and was the youngest ever recipient of CBRE's prestigious Pacific-wide Circle of Excellence award for Excellence in Valuations in 2014, selected from over 400 valuers. She formed the Future Leaders initiative at CBRE, organising networking events for younger staff and clients, and was a key committee member of the RICS Property Industry Charity Ball 2015. Natasha also actively mentors graduate valuers at CBRE.

NICK HOOPER REGISTERED VALUER AT COLLIERS INTERNATIONAL, AUCKLAND

@NHooper is #OYPP adopting innovative #valuation practices & leadership. A top performer at @colliersNZ generating #newbiz.

Nick is a valuable 'early adopter' and leader within the valuation team. His lead role in implementing new technology tools and software (e.g. Sketchup and GIS Viewer), which assists with valuation disciplines, is highly valued by his colleagues. Nick's initiative also ensures the team is offering best practice in the latest valuation standards and methodology. He consistently generates new business to grow Colliers' role in other market areas, particularly his specialist field of industrial valuation, by strategically targeting the smaller end of the industrial sector. By working towards securing his presence on major bank valuation panels, he is giving himself every opportunity to be top of mind within these institutions and the 'go to person' for best practice within his industrial valuation field of expertise.

SUSIE PENROSE ASSOCIATE DIRECTOR AT TELFERYOUNG, HAWKE'S BAY

Passionate, motivated, forward thinking and humble young professional with exceptional leadership qualities. #YoungPropertyProfessional.

'I have been passionate and motivated to do whatever I can to have a positive influence on the property profession. I believe the industry needs a shake-up, an injection of youth and a stronger female presence in order to join the modern world. Since being inspired by the young valuers focus group, I am trying to make a difference to the profession as a whole, for both the current and future members of the industry. My time in the PINZ Young Leaders Group has been absolutely invaluable, and sitting on the Valuers Council as the Young Representative is a huge honour – it has inspired me further to step up and hopefully one day be a leader in our industry.'

the Supreme Award, the JM Harcourt Memorial Award, the Top Property Manager Award, and the Top Property Advisor Award.

Riding the WAVE

HOW TO SUCCEED IN A MOVING MARKET

HAVE YOU REGISTERED FOR THE 2016 CONFERENCE YET?

The Property Institute's Annual Conference for 2016 is set to be full of good vibrations, with a great line up of guest speakers, rip-roaring entertainment, and gnarly prizes up for grabs. Join us at the Langham Hotel in Auckland from 16-17 June 2016! Check out some of our guest speakers:

RIDING THE RESIDENTIAL WAVE: INSIGHT INTO THE RESIDENTIAL PROPERTY MARKET

Speaker: Bernard Hickey

An economic and financial commentator with over 20 years' experience, Bernard is now based in the Parliamentary Press Gallery and produces a daily economic and political news email. The former editor of interest.co.nz also writes a column for the *NZ Herald* on Sunday and appears regularly on television and radio.

RIDING THE COMMERCIAL WAVE: INSIGHT INTO THE COMMERCIAL PROPERTY MARKET

Speaker: Justin Kean

Justin is Director Research and Consulting at JLL New Zealand and has more than 16 years' experience in property. He is responsible for running JLL's national research programme, as well as providing input into the wider JLL Asia Pacific platform. His team delivers strategic consulting solutions to the firm's clients.

AUCKLAND'S TRANSPORT WAVE: HEAR HOW AUCKLAND TRANSPORT PLANS TO SERVE THE CITY'S BOOMING POPULATION

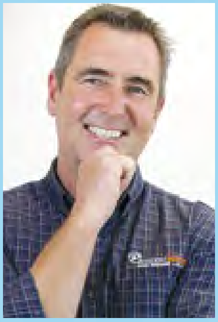
Speaker: Peter Clark

Pete is Chief Strategy Officer at Auckland Transport and has been involved in the transport sector for 30 years. He has held roles in research, lecturing, consulting, and local and regional government. Pete is currently on the Advisory Boards for the Centre of Infrastructure Research and the Department of Civil Engineering at Auckland University.

DEFYING GRAVITY: HOUSE PRICES AND EASY MONEY

Speaker: Dr Michael Rehm

Dr Michael Rehm is a Senior Lecturer in Property at the University of Auckland Business School. His research focus has been on the development of hedonic pricing models used to isolate and better understand the specific behaviour of market participants within housing and office markets. His latest research focuses on the investor's role in the Auckland housing market.



RENOVATION REALITY

Speaker: Peter Wolfkamp

A household name for his role as site foreman for The Block NZ since 2012, Pete brings a unique combination of construction and technical knowledge along with hands-on chippy experience. Pete hosts his own building and DIY Radio show on NewstalkZB and will be launching his very own TV programme this year called 'Creative Living'.

MAKING THE BEST OUT OF PROPERTY

Speaker: Jonathan Simpson

Jonathan Simpson of the Goodman Property Trust is responsible for all investor communications and oversees the financial modelling and forecasting functions for it. He has 20 years' experience in the property and capital markets. Jonathan has previously held positions with the Property Council of New Zealand and the Investment Property Databank in the United Kingdom.

THE REAA: THEIR ROLE AND HOW THEY SUPPORT THE INDUSTRY

Speaker: Kevin Lampen-Smith

Kevin has been Chief Executive at the Real Estate Agents Authority (REAA) for over four years, and has over 15 years' experience working in the regulatory and consumer areas of the public sector. He has extensive leadership experience, holding senior roles at the Historic Places Trust. Previously Kevin was the General Manager, Corporate Services at the Electricity Authority. He played a significant role in the successful transition from the Electricity Commission to the Electricity Authority, the newly formed market regulator.

RESIDENTIAL WIPE OUTS: LEAKY BUILDING UPDATE

Speakers:

Evan Gamby and Matt Taylor

Evan Gamby is a registered valuer and Director of TelferYoung (Auckland) Limited. He describes himself as a generalist, but has been involved in valuing properties with leaky building and other structural issues since the 1990s and regularly prepares evidence for claims in the High Court and the Weathertight Homes Tribunal. The main issues he is required to address for leaky building claims are value loss, stigma and consequential losses relating to apartment buildings and family home properties. Matt Taylor is a Director of Gribble Churton Taylor Limited, a practice based in the Auckland CBD. For 15 years he has undertaken research and analysis, and provided opinions on the issue of stigma price discounting, mainly concerning leaky buildings for legal proceedings.

THE CHANGING FACE OF THE AUCKLAND POPULATION

Speaker: Professor Ian Pool

Ian Pool CNZM, FRNZ is New Zealand's leading demographer. Professor Emeritus of the University of Waikato and Honorary Professor of Jinjiang College, Sichuan University, China, he was the Founding Director of the Population Studies Centre at the University of Waikato between 1982 and 2003.

LOGISTICS OF AUCKLAND AIRPORT'S PROPERTY PORTFOLIO

Speaker: Mark Thompson

Mark is General Manager of Auckland Airport and leads the property team and is responsible for continuing to transform the airport into a vibrant business destination, developing new commercial business premises and attracting high-profile companies. He has more than 20 years' experience in real estate management and development and a wealth of experience in the transport and logistics sectors.

PROPERTY INSTITUTE

WHERE WE ARE IN AND AROUND THE REGIONS

NORTHLAND

Branch Chair: Reuben Archer

reuben.a@propertyindepth.co.nz

AUCKLAND

Branch Chair: Patrick Foote

patrick@gctvaluers.co.nz

Branch Secretary: James Wilson

james.Wilson@qv.co.nz

UPCOMING EVENTS

June 2016 – Breakfast Seminar.

July 2016 – Breakfast Seminar.

August / September – Young Guns Event.

WAIKATO

Hamilton based branch

Branch Chair: Jeff Alexander

jeff@curnowtizard.co.nz

ROTORUA

Branch Chair: Kendall Russ

kendall.russ@telferyoung.com

TAURANGA

Branch Chair: Paul Higson

paul.higson@telferyoung.com

UPCOMING EVENTS

June: A CPD site tour of a High Performance center at Mount Maunganui.

GISBORNE

Branch Chair: Che Whitaker

cwhitaker@lewiswright.co.nz

TARANAKI

Branch Chair: Stephen Hodge

stephen@taranakipropertyvaluers.nz

Branch Secretary: Ben Hunt

HAWKES BAY

Branch Chair: Trevor Kitchin

trevor.kitchin@telferyoung.com

UPCOMING EVENTS

11 May – Economic Overview for Hawkes Bay from local economist Sean Bevin.

Mid-June – Presentation from Hastings District Mayor Lawrence Yule.

Late July – Presentation from Napier Port Chief Executive Garth Cowie on the port extension.

Sept – Possible methamphetamine property testing event.

WANGANUI

Branch Chair: Rob Boyd

rob.boyd.nz@outlook.com

UPCOMING EVENTS

June presentation: Local town planner to discuss the changing face of Wanganui CBD.

August presentation: Geotechnical engineer to discuss slip hazard zones in two Wanganui suburbs.

JOIN THE PROPERTY INSTITUTE TO ATTEND EVENTS, SEMINARS AND OUR ANNUAL CONFERENCE AT MEMBER RATES.




MANAWATU

Branch Chair: Bruce Lavender

brucel@blackmores.co.nz

UPCOMING EVENTS

The Manawatu Branch holds monthly breakfast meetings on the first Wednesday of every month from 7.30-8.30am. Members are encouraged to attend to network and discuss property related matters in their region.

Lunchtime meetings with guest speakers will be happening throughout the year, and watch out for a small Spring Seminar that will take place in September.

WELLINGTON

Branch Chair (PINZ) Callum Taylor

ctaylor@linz.govt.nz

Branch Chair (NZIV): Hamish Bills

hjb@lockwoodassociates.co.nz

NELSON

Branch Chair: Simon Charles

simon@dukeandcooke.co.nz

CANTERBURY WESTLAND

Branch Chair (PINZ): Simon Newberry

simon@fordbaker.co.nz

SOUTH/MID CANTERBURY

Branch Chair: Alistair Wing

awing@xtra.co.nz

CENTRAL OTAGO

Branch Chair: Heather Beard

heather.beard@colliersotago.com

UPCOMING EVENTS

Field trip to Greenstone Apartments.

The Wakatipu Valuers Study Group meet once a month from 6-7pm. Their upcoming meetings are scheduled for 7 June and 4 July.

OTAGO

Branch Chair: Adam Binns

adam.binns@abcommercial.nz

SOUTHLAND

Branch Chair: Regan Johns

regan@ttval.co.nz

A NEW MECHANISM FOR NOTIFYING COVENANTS IN GROSS

MARK ALLEN

Mark Allen is a Senior Associate at Simpson Grierson based in Auckland.
e: mark.allen@simpsongrierson.com

One of the more interesting legal points arising out of the Land Transfer Bill, which has recently passed its first reading in Parliament, is the introduction of a new mechanism for notifying covenants in gross on land titles.

A covenant in gross is a covenant by party A, affecting A's land, for the benefit of another party B which does not attach to B's land, so that it is enforceable by B personally. More often land covenants in favour of B's land can only be enforced by B and B's successors in title.

Previously, New Zealand has not had a statutory mechanism that directly allows for covenants in gross. Instead, encumbrances are commonly used as a work-around. The new mechanism has been introduced to help address some of the issues arising from the practice of using encumbrance instruments to secure covenants in gross.

The new mechanism is likely to be supported by landowners, as it will allow for covenants in gross to be noted on land titles while introducing various protections and remedies, including allowing them to be removed if certain conditions are met. By contrast, covenantees such as developers and local authorities are likely to continue to favour using encumbrances rather than support a new mechanism, which introduces additional rights to a landowner to have covenants removed.

Covenant in gross – what is it?

In the context of land, a covenant is a promise that affects land contained in a deed and is enforceable directly between the parties to it. Such covenants can become interests in land, thereby becoming enforceable against persons (successors in title) who are not original parties to the deed.

Under the Property Law Act 2007, restrictive covenants (an obligation not to perform a certain activity on land) and positive covenants (an obligation to positively perform a certain activity on land) run with the land provided that the covenant benefits some other land. Under current law, these covenants can be notified on the land titles and operate to bind successors in title.

Encumbrances are a species of mortgage and, as with mortgages, bind successors in title by registration.

A covenant in gross, on the other hand, is a covenant that may be either restrictive or positive, but which imposes some particular burden on the land, but does not involve any benefit to some other land. The benefit of a covenant in gross usually attaches to a person, corporate entity or a local authority. At present, covenants in gross by themselves cannot be notified on the title.

Why is a new mechanism needed?

The Bill includes a new mechanism for covenants in gross to address various issues that have arisen from the use of encumbrances. Encumbrances are able to secure covenants in gross through the use of a rent-charge mechanism. Rent-charges are a product of English history where feudal landlords were not permitted to seize a tenant's chattels to pay overdue rent. Instead, such landlords established a practice of imposing a rent-charge in the grant of freehold estates to make up for any arrears of rent in the future.

In New Zealand, the practice of securing covenants in gross by embodying them in an encumbrance instrument is reasonably common. Encumbrances are commonly used for this purpose by corporate entities and local authorities who wish to secure collateral obligations relating to a piece of land. For example, local authorities will often require encumbrances to be registered that record obligations relating to the maintenance of stormwater and other infrastructure by landowners on private land.

Encumbrances are a species of mortgage and, as with mortgages, bind successors in title by registration. In New Zealand, encumbrances will, by default, include the power of sale where the rent-charge falls into arrears or other related obligations are not met. The power of sale is commonly excluded from terms and conditions of encumbrances to make them more acceptable to landowners and their mortgagees.

Some common examples of use of an encumbrance to secure covenants in gross include:

- Use in subdivisions to impose rules governing participation in a residents' association (including payment of annual fees), contracts with utility providers and/ or shared costs of communal facilities
- Provide for the maintenance of stormwater and other infrastructure by landowners on private land, and
- Restraint of trade provisions in relation to a piece of land.

The Law Commission in its 2010 report *A New Land Transfer Act* detailed a number of issues regarding the use of encumbrances to register covenants in gross. The key issues raised include:

- Using an encumbrance mechanism to secure covenants in gross is inconsistent with the existing regime governing positive and restrictive covenants, which are already permitted to be noted on certificates of title
- The encumbrance mechanism gives protection to types of covenants that have not historically been recognised by the common law or equity as an interest in land. There is a risk that including these covenants in a registered document enables those covenants to obtain greater protection than restrictive or positive covenants, without being subject to their safeguards (i.e. ability to challenge them and have them removed from the register by the court)
- From a public policy viewpoint, it is not always appropriate for all personal covenants (including personal contractual obligations) to run with the land and be binding on successors in title, especially those that impose onerous and long-lasting obligations on individuals who may not have substantial bargaining power, and
- An encumbrance (utilising a rent-charge mechanism) is a form of security for the payment of money and enforceable as though it is a mortgage under the Land Transfer Act 1952. It is argued to be artificial that an instrument whose primary purpose is to provide security can be used to enforce covenants relating to the use (or restricted use) of land.

Having identified the above problems, the New Zealand Law Commission recommended that a new mechanism be introduced to permit the use of covenants in gross, including allowing them to be notifiable on

It is expected that practitioners will start using the new mechanism (i.e. covenants in gross) voluntarily because it does not carry the costs and risks of encumbrances.

titles while imposing restrictions as to their use. The Law Commission also recommended that once a new mechanism for covenants in gross was in place, then the practice of using encumbrances to register covenants in gross should be brought to an end.

How was the mechanism incorporated in the Land Transfer Bill?

In response to the above recommendations, the Law Commission prepared a first draft Land Transfer Bill and included provisions that:

- Created a new mechanism to provide for the notification of a covenant in gross on certificates of title, and
- Prohibited the use of encumbrances to secure covenants in gross, by preventing registration of any encumbrance other than those with a 'primary purpose' of securing payment of money.

Initial Cabinet policy decisions provided for the Land Transfer Bill to adopt these measures proposed by the Law Commission.

However during the drafting process of the Land Transfer Bill, officials undertook extensive stakeholder consultation with LINZ, the New Zealand Law Society and the Auckland District Law Society. These stakeholders considered that it would be unworkable to require individual analysis of each encumbrance by LINZ to determine its 'primary purpose' (i.e. whether the encumbrance had a primary purpose of securing the payment of money or to secure covenants in gross) prior to registration.

The Regulatory Impact Statement for the Land Transfer Bill noted that the preferred option is to allow encumbrances to be used if desired, while also providing for a new mechanism for noting covenants in gross on titles. This is on a basis that it is expected that practitioners will start using the new mechanism (i.e. covenants in gross) voluntarily because it does not carry the costs and risks of encumbrances.

New covenant in gross mechanism

Under the Land Transfer Bill, new sections of the Property Law Act 2007 are proposed which:

1. Establish and define the concept of a covenant in gross (an instrument requiring a covenantor to do or to refrain from doing something, which benefits another person);
2. Allow covenants in gross to bind successors in title;
3. Permit notification of the covenants in gross on certificates of title; and
4. Establish enforcement, modification and extinguishment processes.

While the first three points are not controversial, the fourth point is worthy of further discussion. The Law Commission considered for this point that any new mechanism that provides for covenants in gross should include some limits to address the following risks:

- The person benefiting from the covenant in gross may cease to exist
- The covenants in gross may be contrary to public policy and impose unfair obligations on landowners in perpetuity, and
- The mechanisms for restrictive and positive covenants need to be aligned with any new mechanism for covenants in gross. If the two mechanisms are not aligned, there is a risk that there will be an incentive to adapt a covenant so that it falls within the less restrictive regime.

On this basis, the provisions in the Land Transfer Bill regarding enforcement, modification and extinguishment processes allow for (on application) a court to modify or extinguish the covenant where:

- There is a change to the nature or extent, character of the covenanted land, or other circumstance the court considers relevant
- The covenantee cannot be found
- The covenant impedes the reasonable use of the burdened land in a different way or extent to that which could have reasonably been foreseen by the original covenantor and covenantee
- The covenant is contrary to public policy or any enactment or rule of law, or
- It is just and equitable to modify or extinguish the covenant.

Importantly, these five point restrictions will not apply to encumbrances.

Covenant in gross or encumbrance

The covenant in gross mechanism looks likely to be favoured by landowners who are being required to note collateral covenants on their certificates of title. The provisions relating to modification and extinguishment are likely to be appealing in that they will provide a degree of flexibility in the future should circumstances change.

From a covenantee's point of view the new mechanism, especially the modification and extinguishment features, is likely to be seen as posing significant interpretation risk and uncertainty until such time that the courts are able to establish interpretation boundaries. This, in turn, is likely to make the existing status quo method of using encumbrances still attractive to covenantees.

MASTER SERIES SEMINAR

WELLINGTON 27 June

AUCKLAND 29 June

CHRISTCHURCH 28 June

TAURANGA 30 June

PROPERTY INSTITUTE
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NZIS

THE SCIENCE OF SUBDIVISION

THE WHO, HOW, AND WHY OF SUBDIVIDING LAND

One-off and small-scale residential subdivisions are becoming increasingly popular as property owners look to maximize the value of their property and unlock equity – so, throughout June we're bringing subdivision experts to four locations around the country to give property professionals and insiders an understanding of how subdivisions work. They'll be covering the mechanics of subdivision, why people do it, and the risks and rewards involved.

Speakers include private sector experts, local council representatives from each region, environmental planning experts, and regional surveyors.

If you are involved in valuing a subdivision, advising clients on the how-to's and the potential complications of subdividing, or even thinking of subdividing yourself – this is a seminar not to be missed.

COST PER EVENT (GST INCLUSIVE): MEMBERS $250.00 NON MEMBERS $400.00

YOU'LL LEARN:

- How to judge the feasibility of subdivisions
- Understanding the risks and rewards involved
- How to apply valuation methodologies to subdivisions
- How Council levies impact subdivision
- Understanding the implications of regional planning
- Resource Management requirements to be aware of in your area
- Complications faced by land owners looking to subdivide

for more information www.property.org.nz