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NEW ZEALAND PROPERTY PROFESSIONAL MAGAZINE

TAKING THE PULSE OF THE PROPERTY MARKET & THE BROADER ECONOMY

Shaping property law

Valuation on the fly

Future proofing residential design

AN EMERGING PICTURE

In our last edition of *Property Professional* magazine we featured the comments of Economist Cameron Bagrie, who like many of us was still trying to work out what the new government meant for property and the broader economy. Three months on, that picture is beginning to emerge, and for many in our industry the image is not going to be pretty.

In the pages that follow, you'll hear from the Chief Economists of four of the major trading banks in New Zealand; their assessment of where things lie, and where they believe the Government is going. The overwhelming observation that I would make from reading their comments is that slogans and popular political rhetoric are an anathema to good policy-making.

The current government and its support partners have made many headlines with their attacks on property 'speculators'. The people they're referring to are the 'buy-and-flip' type operators who are in the market to make a quick capital gain and move on to the next deal. But the vast majority of those I meet in the industry are not those people. They're everyday New Zealanders saving for their retirement, or parents providing for their kids while studying, or they're landlords who are, and have been, in it for the long game.

But every punitive step that has been taken since the new government came to power has been targeted at the so-called 'speculators' – catching a whole pile of other people in their net on the way through.

And now the chickens are coming home to roost, with rising rents, a flat market, falling confidence, alongside predictions of rising interest rates, increased construction costs and severe labour shortages. You can't beat up on the people that make houses happen and expect supply to grow.

Thankfully, there are signs that the new government and policy-makers recognise this. Minister Phil Twyford is working hard to downplay expectations about a quick sugar hit from his KiwiBuild policy (to build more than 27 affordable houses a day), there are signs of a back down on migration (for construction workers), a more comprehensive capital gains tax is off the table until after the next election, and the Reserve Bank's been letting off its LVR handbrake.

But there are still plenty more unknowns. And that's unlikely to give much confidence to the tradies, professionals, developers and others who are at the frontline of trying to ensure that supply meets demand.

Worse, is that our economic experts predict that government-led activity may 'crowd out' the private sector, which in an industry that is dominated by 'for-profit' businesses is a worrying development indeed. I'm not convinced a government department will do things any more efficiently and effectively than the private sector.

That said, I remain firmly of the view that the Government deserves a fair go. Confidence is likely to rebound, providing there is no radical shift away from the economic fundamentals that have been in place for nearly 20 years, and the property sector will adjust to the new 'normal' whatever shape that takes.

The economic analysis which follows is broadly in line with my own thinking and it is definitely food for thought. It signals both risk and opportunity for the informed operator.

Elsewhere in this edition we invite you to the upcoming Property Institute Conference called 'Playing With A Winning Hand'. Being held at Auckland's SkyCity Hotel in June, we're determined to make this the best yet. You can read a bit about a couple of the presenters – and I'd encourage PINZ members to get their nominations in for the Property Industry Awards which are presented at the same time.

Also in this edition of *Property Professional* we profile respected PINZ member, author and economist Olly Newland, who says he had to learn about the industry the hard way – starting out by doing up houses.

And in our legal section we give you some tips on how you can influence government decisions through the select committee process, and we feature the work of one of our country's top aviation valuers, David Macmillan.

There's plenty more good reading too. I hope you enjoy it

Ashley Church, Chief Executive
Property Institute of NZ
ashley@property.org.nz
027 486 1770

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Contact details
Ashley Church, CEO
Property Institute of New Zealand
PO Box 5304
Lambton Quay
Wellington 6145
0800 698 258
ashley@property.org.nz

Editor
Helen Greatrex
helen@property.org.nz

Design
Nic Porteous
design@nicporteous.co.nz

Print and advertising enquiries
The Printroom
(04) 473 1211
glenn@theprintroom.co.nz

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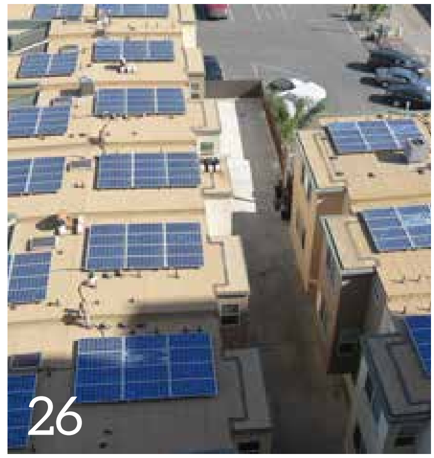

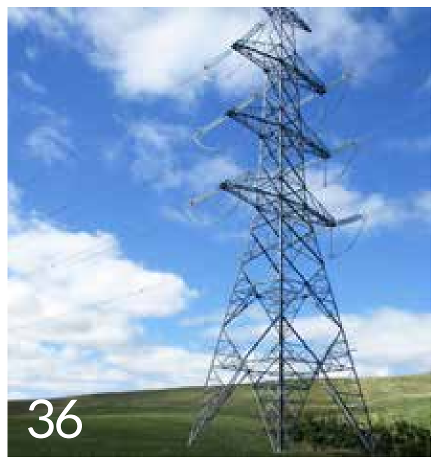


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WHAT THE EXPERTS EXPECT

Property Professional magazine approached the Chief Economists of four major New Zealand banks to give us their take on what to expect in the property market in the year ahead. Success in property is all about information. Knowing where the market's going, knowing what's selling, knowing what's commanding the highest yields and knowing what's in demand.

The December edition of *Property Professional* featured a number of forecasts from top economist Cameron Bagrie. Back then, the new Government Ministers barely had their feet under their desks. He said then that much was uncertain, but change was coming.

Today, with the Government's 100-day priorities already in the bank, *Property Professional* went back to the top bank economists to pass their verdicts and give their predictions on what lies ahead in 2018. In the pages that follow you can read in full what the BNZ, ANZ, ASB and Westpac number crunchers think is in store.

For those 'buy and flip' folk who're banking on the recent boon to continue there is bad news, but for savvy industry participants looking to the long term there are still good opportunities despite the downside risks.

Our experts all have slightly differing views, however they reach consensus on a few fundamentals:

1. House price inflation will be subdued but there will be no crash barring some economic crisis.
2. There'll be a lot more regulation and 'hands on' from the Labour-led Government – the outcomes are still uncertain.
3. Rental properties will be an increasingly scarce commodity, and rents will rise as landlords and investors face increased costs, credit restrictions, bans and new taxes.

Despite the passing of time, regulatory and legislative uncertainty remains a significant barrier to accurate forecasts. But the assumption appears to be that pragmatism will likely overtake political sloganeering when it comes to property and the broader economy.

BNZ view

According to BNZ Chief Economist Tony Alexander, 'both average house prices and rents still face upward pressure.

'Structural changes in the labour market, building costs, migration flows, interest rates and investment preferences help explain why New Zealand house prices have permanently settled at a higher ratio to incomes. Going forward, an unwinding of these structural shifts looks unlikely.

'There has been a permanent repricing of New Zealand's housing stock. That repricing process has now probably finished by and large in our big cities, although some adjustments may still be underway in the regions.

'Does this mean that house prices will fall as some claim? Very unlikely, but it is also very unlikely that a new period of rapid generalised house price inflation will appear in the next three years.

Does this mean that house prices will fall as some claim? Very unlikely, but it is also very unlikely that a new period of rapid generalised house price inflation will appear in the next three years.

'We have clear evidence that some investors are responding to new imposts planned by the Government by reducing their property exposure. All of the moves, including extending the bright-line test from two to five years, limiting landlord rights to resetting rents and changing tenants, healthy homes requirements etc, need to be seen in the light of a structural shift in the New Zealand housing market.'

Government agenda

Alexander says labour constraints are also going to play a major part in progress on the Government's building programme.

'Although the Government has think big-type house building plans there are simply not enough carpenters, plasterers, electricians, drain layers, quantity surveyors and so on to build at levels sufficient to even start reducing Auckland's shortage for many years.

'Old ratios of house prices and rents to incomes are now irrelevant.

'We are in a new paradigm, and barring a major global economic downturn, chances are that average house prices will continue to creep higher these next few years.'

Westpac view

Chief Economist Dominick Stephens says Westpac has revised down its growth forecasts for 2018, but is picking stronger growth in 2019/20.

'The election of the new government marks the start of a new chapter for New Zealand politics, and possibly for the economy.

'We have made significant changes to our forecasts because of what proposed government policies will do to the economy. We have revised down our GDP forecast for 2018, but upgraded our GDP forecasts for 2019 and 2020.

'The new government's plan to increase spending will certainly boost the economy, although crowding out of private sector activity must also be considered.'

Meanwhile, he predicts the various plans to cool the housing market and reduce net migration will slow the economy in 2018.

'More recently, house sales and prices have perked up again, particularly in Auckland. The bank's view is that this housing market resurgence will last a few more months, but that the subdued market will soon reassert itself.'

Westpac is forecasting a modest decline in house prices for late 2018, with zero annual house price inflation for 2018 and 2019.

Stephens says, 'almost every factor we can think of is lined up against the housing market.

'If the market really tanked the Reserve Bank would ride to the rescue by loosening the LVR restrictions. That's why Westpac is forecasting roughly flat, rather than declining, house prices.'

If the market really tanked the Reserve Bank would ride to the rescue by loosening the LVR restrictions. That's why Westpac is forecasting roughly flat, rather than declining, house prices.

ANZ view

ANZ Chief Economist Sharon Zollner says the Government's proposed policies fall into three broad categories: increasing housing supply, decreasing housing demand and improving the lot of renters.

'These measures will keep the housing market on ice for longer … the KiwiBuild scheme will have to directly compete with the private sector for labour, and that issue is not so easily dodged.'

She says the Government's plan to rapidly increase the supply of affordable housing is highly ambitious.

'Construction firms tell us that they are extremely busy – and large increases in construction costs confirm it.

'There is a chronic shortage of staff and even some construction materials. The Dole for Apprenticeships scheme will not make a significant difference.'

Zollner also says it seems inevitable that there will be a degree of 'crowding out' of private sector construction activity by the increased government-led activity.

'It seems likely that the largest supply boost (and hence any dampening impact on house prices) will be focused at the lower end of the market, as the Government intends.

'We are assuming net migration will fall to about the new Government's target by the end of 2019 simply on macroeconomic factors.

'On balance, lower migration may delay the next upswing in housing, but does not imply that house prices are likely to fall.'

Foreign buyer ban

Like most commentators, Zollner says it's unclear what sort of impact the ban on foreign house buyers will have.

'For the simple reason that no-one knows what their impact on the housing market has been to date. There is a lamentable lack of data. One of the difficulties is that these measures do not stop the ability of non-residents to channel money through to the likes of resident relatives.'

Zollner further says the Government's tax agenda is aimed squarely at property investors, and in particular buy-and-flip 'speculators' as opposed to those in it for the long haul.

'Labour estimates the bright-line test change will raise an additional $150 million of tax revenue.

'Analysis of capital gains taxes in other countries has generally tended to conclude that they have a one-off negative impact on prices, but little ongoing impact on the magnitude of house price cycles.

'It is possible the supply of rental properties may fall, which could worsen housing affordability for renters.'

In summary, she says the housing crisis is a long way from being solved.

'In our view it would take an increase in forced sales to drive a significant market correction, particularly at a time when a shortage still exists in Auckland, so the measures proposed here look unlikely to be sufficient.'

ASB view

'The government climate for property investment is set to be less favourable,' says ASB Chief Economist Nick Tuffley.

'These various policies will slightly raise the financial hurdles for property investors, as well as enabling some would-be renters to more easily buy their own home.

'Extending the bright-line tax period means investors need to be prepared to commit to a much longer holding period if they are to avoid any profit at their marginal tax rate on any capital gain.

'But it is likely that most other investment alternatives with a capital component will also be taxed, outside of a likely exemption for the family home.

'The upshot for investors is that after-tax cashflows won't be quite as good as otherwise.

'In the future, capital gains are unlikely to remain tax-free – but the same will apply to most investments beyond the family home.'

> ***But it is likely that most other investment alternatives with a capital component will also be taxed, outside of a likely exemption for the family home.***

'The likely direction of interest rates over the next few years will be up, even if gradually.'

Tuffley also says investors will face added ownership costs, particularly for older properties that may need a greater degree of work to get them to a healthy standard.

'Growth in rental stock held by private investors is likely to slow and could even fall if enough investors decide to reduce their holdings,' he says.

> ***The likely direction of interest rates over the next few years will be up, even if gradually.***

Last word

For those who follow politics and/or economics the Government's agenda should come as no surprise.

Our experts agree the playing field is being tipped away from investors, but there are still open questions as to whether or not the mix of policies will have significant negative consequences, particularly for renters who are, and are likely to remain, a growing constituency.

At a high level, our economists expect the already cooling market will remain flat, and it remains to be seen how fast the Government moves to implement its policies, or if pragmatism will win the day and some of their agenda is delayed or quietly sidelined altogether

FEATURE: STATE OF THE PROPERTY MARKET AND THE BROADER ECONOMY

'Construction firms tell us that they are extremely busy – and large increases in construction costs confirm it. There is a chronic shortage of staff and even some construction materials.'

'Property investors' tax treatment will deteriorate.'

'The likely direction of interest rates over the next few years will be up, even if gradually.'

'Property investors will be more cautious over the rental yield from property, given the more obvious need to ensure enough fat will remain.'

'Some investors are responding to new imposts planned by the Government by reducing their property exposure.'

'The KiwiBuild scheme will have to directly compete with the private sector for labour, and that issue is not so easily dodged.'

'Barring a major global economic downturn, chances are that average house prices will continue to creep higher these next few years.'

STRUCTURAL FACTORS BEHIND HIGHER HOUSE PRICES

BNZ CHIEF ECONOMIST, TONY ALEXANDER

Structural changes in the labour market, building costs, migration flows, interest rates and investment preferences help explain why New Zealand house prices have permanently settled at a higher ratio to incomes. Going forward, an unwinding of these structural shifts looks unlikely. But allowing for shortages of builders making a construction surge an impossibility, and legislation moving to favour tenants, then the long-term implications are clear. Both average house prices and rents still face upward pressure.

Housing affordability

Having a roof over one's head is a fundamental human need and one usually quite well met in modern economies through market processes. People generally stay at home until they can afford to go flatting by themselves or with others, or they purchase a home. The family home acts as a buffer allowing the market to some extent to handle fluctuations in the availability and cost of housing outside the family home without huge ups and downs in people living on the streets.

Nonetheless, there are limits to which this buffer can operate and perhaps New Zealand reached such a limit a few years back. The number of people counted as homeless is rising and there has been a noticeable surge in stories in the media about the availability and cost of rental accommodation. Preceding all of that we have seen strong rises in house prices throughout New Zealand – led initially this cycle by Auckland and Christchurch.

Reasons for soaring prices

Between 2008 and up until recently there was a strong view that soaring prices were ephemeral and would reverse. We adopted a different view (without ever forecasting the extent to which prices would rise) based upon analysis of both short and long-term factors driving prices higher.

Some of the long-term factors include the widespread entry of female partners into the workforce, raising the number of households in which two incomes could go toward a house purchase instead of just one (usually the male's). Early dual income families could get a far better house. Over time as the female labour force participation rate has risen, house prices have adjusted to reflect two incomes at auctions chasing a purchase rather than just one.

The average size of new houses being built these days is closer to 200 sqm than the 120 sqm of the 1970s and earlier. As the housing stock gets boosted each year on average by about 1.4%, average house prices/costs naturally go higher.

The quality of houses being built these days is also far superior (apart from leaking) than in previous decades in terms of toilets on the inside and more than one of them, testing, certification and inspection of materials and construction, developers' levies, consenting fees, insulation and earthquake preparedness standards.

Over time as the female labour force participation rate has risen, house prices have adjusted to reflect two incomes at auctions chasing a purchase rather than just one.

Interest rates are also structurally lower than at any other time since the 1960s. Almost everyone borrows most of the price of their first house and some of their subsequent houses. The structural decline in mortgage rates this decade back to 1960s levels has been permanently factored into house prices.

We have also seen the entry of new foreign investors into the housing market, the new entry of baby boomers seeking yield, and the natural spread of cities pushing prices higher for existing houses better located near work and entertainment rather than new more far flung houses in distant suburbs.

Controls on availability of credit

Add it all together and there has been a permanent repricing of New Zealand's housing stock. That repricing process has now probably finished by and large in our big cities, although some adjustments may still be underway in the regions. This completion of a long-term repricing has come, in Auckland at least, at the same time as the Reserve Bank has shifted its attention away from fighting inflation, which simply is not there (the higher interest rates were unsustainable), toward controls on the availability of credit.

The first of these controls came in October 2013 with banks limited to having only 10% of lending to people with less than a 20% deposit. The eventual tightening to include a minimum 40% deposit for all investors (bar 5%) 'hit the sweet spot' from a prudential management point of view. Now the Reserve Bank has said it is happy with the lower risk profile of bank home lending and the rule has been eased to 35%.

There has been a permanent repricing of New Zealand's housing stock. That repricing process has now probably finished by and large in our big cities, although some adjustments may still be underway in the regions.

Although the Government has 'think big' type house building plans there are simply not enough carpenters, plasterers, electricians, drainlayers, quantity surveyors and so on to build at levels sufficient to even start reducing Auckland's shortage for many years.

Will house prices fall?

When it comes to Auckland the upward leg of the housing cycle and long-term repricing ended a year and a half ago. Since then and through this year other parts of the country will reach the same point. Does this mean that house prices will fall as some claim? Very unlikely, but it is also very unlikely that a new period of rapid generalised house price inflation will appear in the next three years. It could, however, be interesting when we see both the Americas Cup and the APEC meeting in Auckland in 2021.

Investor behaviour

On the price restraining side we have clear evidence that some investors are responding to new imposts planned by the Government by reducing their property exposure. All of the moves, including extending the bright-line test from two to five years, limiting landlord rights to resetting rents and changing tenants, healthy homes requirements etc, need to be seen in the light of a structural shift in the New Zealand housing market. More people are renting and fewer are owning. It is inevitable that legislation will change to reflect the needs of the growing pool of renters.

What this could mean is that many relatively inexperienced people will sell their investment properties, and some of the many frustrated home buyers having trouble purchasing a home for a decade now will be able to find something they want, although still with a large mortgage.

Rise in average rents

What will also inevitably happen is that average rents will rise. Why? There are three main reasons:

- The costs of being a landlord are rising. In all businesses when this happens upward pressure goes on selling prices – in this case rents
- In New Zealand there is as yet a relative absence of large institutional private providers of rental accommodation. In the USA managed funds actively invest in and manage rental stocks. This will inevitably one day come to New Zealand and provide an alternative investment vehicle for those seeking residential property exposure but not wanting to be locked into a single property. However, we are years away from that happening
- This last point takes us right back to the beginning of the article. There is a buffer of young people who in the past 10 years have been staying at home far longer than any previous generation, not because they are lazy, but because they want to buy a house but cannot/could not afford what they want. Now, as a few more properties come onto the market (courtesy of the natural ending of the price cycle and some landlords responding to new rules by selling), these young people will leave home. Two houses will now house people who previously lived in one.

Migration levels

Ultimately, therefore, the adjustment we currently see in the housing market will not alter the key fundamental of a shortage of property in some parts of the country. Relief to this shortage from rapidly falling net immigration is unlikely as the Government pulls back from plans to limit workers entering the country, and structurally net migration flows have altered upward. Relief to the shortage is also unlikely from a sharp rise in interest rates because inflation has not just stayed low post-GFC but recently fallen from 1.9% to 1.6%.

Also, although the Government has 'think big' type house building plans there are simply not enough carpenters, plasterers, electricians, drainlayers, quantity surveyors and so on to build at levels sufficient to even start reducing Auckland's shortage for many years.

The future

The cost and complexity of being a landlord is structurally changing just as other things outlined above have structurally altered since the 1960s. Old ratios of house prices and rents to incomes are now irrelevant. We are in a new paradigm, and barring a major global economic downturn, chances are that average house prices will continue to creep higher these next few years. However, watch some local authority areas where a recent construction surge may stand at odds with long-term official projections of population decline or stagnation

Tony Alexander is Chief Economist at the BNZ based in Wellington.
Tony_Alexander@bnz.co.nz

THE HOUSING MARKET AND THE NEW GOVERNMENT

ANZ CHIEF ECONOMIST, SHARON ZOLLNER

The new government wants to improve housing affordability, and is tackling both the supply and demand side. They also want to improve the lot of renters. These measures will keep the housing market on ice for longer.

A more active role

The new government has stated that it will take a far more 'active' role in the housing market, with a particular focus on addressing a severe affordability problem. The proposed policies fall into three broad categories: increasing housing supply, decreasing housing demand and improving the lot of renters.

Increasing housing supply

On the housing supply front there are three main (intertwined) initiatives: KiwiBuild, boosting the number of construction workers and increasing land supply.

Kiwibuild and more construction workers

The Government has an advantage that private sector house-builders do not have – it does not face the same funding constraints. Mass procurement and streamlined designs should also reduce per house building costs. However, the KiwiBuild scheme will have to directly compete with the private sector for labour, and that issue is not so easily dodged.

In our view, the new government's plan to rapidly increase the supply of affordable housing is highly ambitious. Construction firms tell us that they are extremely busy – and large increases in construction costs confirm it. There is a chronic shortage of staff and even some construction materials. The Dole for Apprenticeships scheme will not make a significant difference, and bringing in large numbers of construction workers from offshore under a special visa scheme runs directly counter to Labour's stated aim (and NZ First's more strongly stated aim) of reducing net migration.

Given the capacity constraints being faced, it seems inevitable that there will be a degree of 'crowding out' of private sector construction activity by the increased government-led activity. That said, the Government will likely succeed in tilting construction towards 'affordable' units and make some progress towards its goals in that way. On balance, it seems likely that the largest supply boost (and hence any dampening impact on house prices) will be focused at the lower end of the market, as the Government intends.

In our view, the new government's plan to rapidly increase the supply of affordable housing is highly ambitious.

Land supply

Freeing up more land for housing development should lower the price of land. However, two facts should not be overlooked: the initial infrastructure costs are much higher vs intensification, and the ongoing cost of living in far-flung housing is much higher, particularly for transport. The Government also intends to free up densification controls, but will run smack into the same spirited opposition that has beleaguered the Auckland City Council in its efforts.

Decreasing housing demand

Turning to the demand side, there are three main initiatives: reducing net migration, banning foreign buyers from purchasing existing houses, and reducing the tax advantages of housing investment.

Migration

Net migrant inflows already look to have peaked, with arrivals stabilising and departures lifting off low levels. Even without building in an explicit allowance for any policy changes, we are assuming net migration will fall to about the new government's target by the end of 2019 simply on macroeconomic factors. Perhaps this is one reason why the Government has softened its talk on reducing immigration targets of late.

All else being equal, lower net migration reduces housing demand. If it results in fewer construction workers arriving it would also be a negative for housing supply growth, but the Government appears aware of this risk and keen to ensure this does not occur. On balance, lower migration may delay the next upswing in housing, but does not imply that house prices are likely to fall.

Lower migration may delay the next upswing in housing, but does not imply that house prices are likely to fall.

Foreign buyers

It is very difficult to know what the impact on the housing market of banning foreign buyers will be, for the simple reason that no-one knows what their impact on the housing market has been to date. There is a lamentable lack of data. Also, despite a number of countries (including Australia) having similar restrictions, there has been a lack of empirical work done overseas on their impact. One of the difficulties is that these measures do not stop the ability of non-residents to channel money through to the likes of resident relatives.

While we would not rule out some negative impact from this new policy on market sentiment in the near term, we suspect it will not make much difference in this cycle, as it appears from anecdote that would-be buyers from China especially are already being stymied by tighter capital controls by Chinese authorities. However, it might make a difference in the next cycle.

Tax changes

This set of policies is aimed squarely at property investors, and in particular buy-and-flip 'speculators' as opposed to those in it for the long haul.

The two announced tax measures, ring-fencing investor property losses from other income and extending the bright-line test to five years, go some way to reducing housing's tax advantage over other forms of investment. All else being equal, this should result in a one-off fall in the equilibrium price of a given investor property. What is less clear is what the transition might look like. Reducing the speed of an upswing or exacerbating a downturn would look and feel very different.

It is difficult to know how large the impact may be. Labour estimates the bright-line test change will raise an additional $150 million of tax revenue. But what will be impossible to measure is the extent to which the policy succeeds in reducing the buy-and-flick speculative behaviour during housing upturns that arguably contributes to rapid house price appreciation.

Analysis of capital gains taxes in other countries has generally tended to conclude

Analysis of capital gains taxes in other countries has generally tended to conclude that they have a one-off negative impact on prices, but little ongoing impact on the magnitude of house price cycles.

that they have a one-off negative impact on prices, but little ongoing impact on the magnitude of house price cycles. A beefed-up income tax on capital gains is not quite the same thing as a capital gains tax, but a similar conclusion seems reasonable.

Similarly, a number of OECD countries have ring-fencing in some shape or form, but the Reserve Bank concluded that 'there is no clear evidence that ring-fencing such losses is associated with less pronounced housing cycles in other countries' (RBNZ Bulletin, 69(2): Supplementary Stabilisation Instruments – Executive Summary). At the micro level, the impact is likely to be largest on the most highly leveraged investors, and in particular late entrants.

Improving the lot of renters or not?

The tax changes are aimed at improving housing affordability by reducing investor demand. However, as always, the law of unintended consequences may bite. In particular, it is possible the supply of rental properties may fall, which could worsen housing affordability for renters. Rental inflation has been surprisingly low for a number of years, so it would be bold to forecast it roaring into life any time soon. But it is worth keeping an eye on, particularly with the anticipated increase in student numbers resulting from the new policy of one free year of tertiary study. In addition, the Healthy Homes Bill will increase costs for landlords.

Implications for housing market

So in some what does it all mean for the housing market? There are still a lot of moving parts, so it is impossible to be definitive. That said, the direction of the changes is consistent. Compared to the hypothetical situation that might have evolved in their absence, the new policies are likely to mean:

- A lower equilibrium price for investor housing
- Weaker sentiment in the near term
- House prices flat for longer – a more marked fall in house prices cannot be ruled out, although it is certainly not our expectation
- Increased housing supply at the affordable end, although possibly at the expense of growth in supply in other segments of the market, given capacity constraints in the construction sector
- Ongoing pressure on construction costs, particularly in Auckland, as the already full pipeline gets another injection
- At the margin, perhaps more upward pressure on rental inflation due to both landlords trying to mitigate the impact of reduced capital gains expectations and a reduced supply of rental housing.

Despite bouncing a little in recent months, the risks around the housing market are tilted to the downside at present. But in our view it would take an increase in forced sales to drive a significant market correction, particularly at a time when a shortage still exists in Auckland, so the measures proposed here look unlikely to be sufficient.

While there is certainly a risk of modest price falls given a possible impact on sentiment, the downside is somewhat limited unless we were to see a sharp negative shock to the economy that changed the economic outlook in a significant way

Sharon Zollner is Chief Economist at the ANZ Bank New Zealand Ltd based in Auckland. sharon.zollner@anz.com

CLIMATE CHANGE

ASB CHIEF ECONOMIST, NICK TUFFLEY

The property market's fundamentals are cooling after a strong boom, and the government climate for property investment is set to be less favourable. The next few years will put more emphasis on cashflow. Meanwhile, New Zealand still needs more housing.

Boom times at an end?

The New Zealand property market has gone through a boom time in recent years, particularly in Auckland. Low interest rates have enabled cheaper financing, as well as lowered investor perceptions of what is an acceptable rental yield. The population has grown sharply via migration, creating added demand for property. In places like Queenstown the tourism boom has boosted demand for accommodation by the tourists themselves, as well as the workers needed to serve them.

But boom times do come to an end. Several factors that have been instrumental in driving property prices in the last few years are abating. The market has been running out of steam since 2016. And, along the way, housing has increasingly become a social and political issue, particularly through challenges for those getting on the property ladder for the first time.

Government policies affecting property market

The new government has been elected on a policy platform of making owning your own home more accessible to New Zealand citizens and residents, and on improving the conditions of rental tenants, particularly the focus on healthier homes. These various policies will slightly raise the financial hurdles for property investors, as well as enabling some would-be renters to more easily buy their own home.

Tax policy

The Government will use tax policy to directly tilt the playing field away from property investors. Tax treatment will become less favourable through proposed policies such as ending tax breaks for negative gearing, extending the bright-line tax from two years to five years, and a probable capital gains tax (CGT). For investors, timing remains an uncertainty to deal with. A CGT would not be enacted until after the next election, assuming Labour is re-elected. The bright-line tax change is in train, and the negative gearing change could also happen earlier than the next Parliamentary term.

> *The Government will use tax policy to directly tilt the playing field away from property investors.*

The Government has also introduced an effective ban on foreign non-residents buying property, although it is debatable how much impact this policy will have on the housing market at present.

There would be a consequent drop in after-tax cashflows for anyone running a negatively-geared portfolio. However, many recent buyers will have faced high deposit requirements as the Reserve Bank of NZ's loan restrictions progressively tightened up, which should limit the impact on investors who have recently bought properties. The loan restrictions are likely to be relaxed only gradually, so over the next year or two new investment property purchases are also less likely to result in negative after-tax cashflows.

Extending the bright-line tax period means investors need to be prepared to commit to a much longer holding period if they are to avoid any profit at their marginal tax rate on any capital gain. Finally, a CGT would reduce profits on sale and overall investment returns. But it is likely that most other investment alternatives with a capital component will also be taxed, outside of a likely exemption for the family home.

Tenant-focused policy shifts may also increase investors' costs of ownership at the margin. Depending on the home, there will be varying one-off costs to raise its standard. Limitations on tenants' liability could add to insurance premiums.

Tenant-focused policy

Tenant-focused policy shifts may also increase investors' costs of ownership at the margin. Depending on the home, there will be varying one-off costs to raise its standard. Limitations on tenants' liability could add to insurance premiums. But these sorts of cost increases are likely to be minor compared to future debt servicing cost increases as interest rates eventually lift from unusually low levels.

KiwiBuild programme

Property investors will also face a form of added competition from their potential customers – would-be homeowners. The Government's KiwiBuild programme, heavily focused on Auckland, is intended to boost the supply of housing stock suitable for first home buyers. To the extent it is successful, it will reduce the pool of would-be renters. And, to the extent that tax changes shift the goal posts for investors, first home buyers may face less competition when attempting to purchase.

The upshot for investors is that after-tax cashflows won't be quite as good as otherwise. In the future, capital gains are unlikely to remain tax-free – but the same will apply to most investments beyond the family home.

Future property market

And where will be property market in general head over the next few years? Property price increases are likely to be capped. Prices are stretched compared to incomes and rents, placing a limit on how far purchasers can extend their offer prices. With migration slowing and building activity high, inroads will eventually be made to regions with housing shortages, such as Auckland and Wellington (to a lesser extent). Investor demand is likely to be pared back, although with some slack taken up by owner-occupiers.

The likely direction of interest rates over the next few years will be up, even if gradually. Higher financing costs will constrain purchasers' budgets. Property investors will be more cautious over the rental yield from property, given the more obvious need to ensure enough fat will remain. But the Reserve Bank is starting to relax its loan restrictions, which will provide greater opportunity for equity-constrained investors.

Investors and landlords

Where does this leave investors? 'Cashflow is King' is the old adage, and it will be increasingly important to focus on this aspect. A number of investors will face added ownership costs, particularly for older properties that may need a greater degree of work to get them to a healthy standard. Any negatively-geared investors will lose that tax benefit.

Debt servicing costs will rise in time. Capital gains will be less reliable in delivering wealth, both over the next few years if price increases are indeed subdued and in the longer term through a likely tax on capital gains.

Debt servicing costs will rise in time. Capital gains will be less reliable in delivering wealth, both over the next few years if price increases are indeed subdued and in the longer term through a likely tax on capital gains. Investor hurdle rates for gross rental yields are likely to be higher in future to take account of all these influences. That, in turn, means less preparedness to bid up prices, and also a little more focus on finding added ways to improve rental yields.

For the rental market, shifts will come on both sides of the coin. Growth in rental stock held by private investors is likely to slow and could even fall if enough investors decide to reduce their holdings. That doesn't automatically mean that rental yields will be squeezed higher. Growth in the number of people seeking to rent is also likely to slow, to the extent that the Government is successful in enabling people to buy their own homes through either KiwiBuild or through facing less heated competition from property investors

Nick Tuffley is Chief Economist at the ASB Bank. nick.tuffley@asb.co.nz

Westpac housing report

EFFECT OF CHANGE OF GOVERNMENT ON ECONOMY

The election of the new government marks the start of a new chapter for New Zealand politics, and possibly for the economy, says Westpac Chief Economist Dominick Stephens.

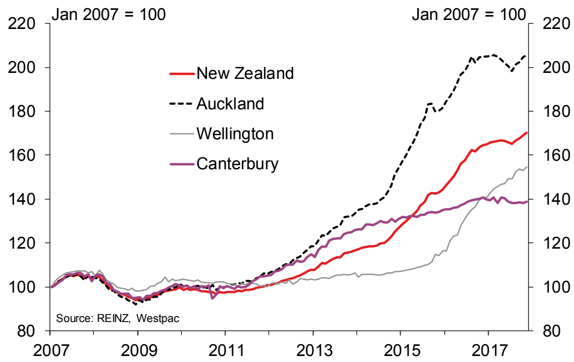
'We have made significant changes to our forecasts because of what proposed government policies will do to the economy. We have revised down our GDP forecast for 2018, but upgraded our GDP forecasts for 2019 and 2020. That's a bit different to the Reserve Bank's assessment and some of the chatter around financial markets, which is that the new government's policies will boost GDP, inflation and the OCR. We agree, but only up to a point,' he says.

Dominick Stephens also notes that the new government's plan to increase spending will certainly boost the economy, although crowding out of private sector activity must also be considered. Meanwhile, he predicts the various plans to cool the housing market and reduce net migration will slow the economy in 2018, and there are also factors related to the construction sector to consider.

House prices

House prices in Auckland and Christchurch cooled slightly over much of 2017, while the rate of increase slowed in the rest of the country. The rise in mortgage rates from their lows since late 2016 was the main contributor to the slowdown in house prices, with the Reserve Bank's loan-to-value ratio (LVR) restrictions and other forms of credit tightening by banks playing supporting roles. But more recently house sales and prices have perked up again, particularly in Auckland. The bank's view is that this housing market resurgence will last a few more months, but that the subdued market will soon reassert itself.

House price indices by region



Looking ahead to 2018, Westpac's view is that the subdued housing market will reassert itself. The bank is forecasting a modest decline in house prices for late 2018 with zero annual house price inflation for 2018 and 2019.

One driver of the recent market pick up has been fixed mortgage rates, which have been trickling lower in recent months and could fall a little further. A rush to beat regulatory changes (such as the ban on foreign buyers and the extension to five years of the bright-line test for taxing capital gains on investors who resell a property) may also be driving the market. The Reserve Bank's decision to loosen its LVR mortgage lending restrictions is also thought to have had a modest impact. Dominick Stephens comments that, 'Property investors will now be able to leverage up a little more, and a few more owner-occupiers will be able to borrow more than 80% of a house's value.'

Housing market weak in 2018?

Looking ahead to 2018, Westpac's view is that the subdued housing market will reassert itself. The bank is forecasting a modest decline in house prices for late 2018 with zero annual house price inflation for 2018 and 2019. Dominick Stephens says that 'Almost every factor we can think of is lined up against the housing market:

- Net migration is dropping away sharply
- Fixed mortgage rates are likely to rise over the coming year
- Foreign buyers will be banned
- Property investors' tax treatment will deteriorate
- Sentiment will take a knock because people know that further deleterious tax change is likely, including the possibility of a capital gains tax which would reduce house prices significantly.'

He also says, 'That the housing market will be weak over 2018 seems like a straightforward call to us. The only positive driver that can be seen on the horizon is the Reserve Bank's LVR restrictions, which could be loosened further. This is seen as a reason for not becoming too negative about house prices over 2018, because if the market really tanked the Reserve Bank would ride to the rescue by loosening the LVR restrictions. That's why Westpac is forecasting roughly flat, rather than declining, house prices.'

Migration

Dominick Stephens notes that net immigration has passed its peak and is now falling faster than previously expected. Much of this is due to a lift in departures of non-New Zealand citizens, which have risen by more than 30% in the past year. This is an echo of the sharp rise in arrivals, many of them on temporary visas, over the past few years. New arrivals have also declined, with monthly inflows down 10% from their peak. With global economic conditions improving, he expects that both New Zealanders and foreigners will be increasingly encouraged to seek their fortunes overseas. Combined with the ongoing exit of temporary migrants, this will see net migration fall sharply.

Construction sector

Dominick Stephens says that the construction sector is no longer the driver of growth that it had been in past years. Building activity fell over the first half of 2017, whereas in previous years home-building rose rapidly but from very low levels. More recently, property developers have had trouble accessing finance and the building industry has run into capacity constraints.

Building activity can remain strong for several years to come, but only a modest rate of growth is expected from today's high levels.

Meanwhile, quake-related building work in the South Island is well past its peak. The need for more homes, along with the pipeline of planned commercial and infrastructure projects, suggests that building activity can remain strong for several years to come, but only a modest rate of growth is expected from today's high levels

Westpac Chief Economist Dominick Stephens can be contacted at: dominick.stephens@westpac.co.nz

OLLY NEWLAND

Early business venture

After leaving school Olly gained a Diploma of Management from the University of Auckland and following this helped in his father's engineering business. This involved many varied types of work, including welding, building and quoting for jobs. It was this experience assisting his father's work that showed him the advantages and disadvantages of going into business, which he did 55 years ago.

Olly says that he had to learn about the property sector from scratch in the first 10 to 15 years of business, doing up houses and starting property development work. After five years he was able to buy his first commercial building. From the mid-1960s to the late 1970s he was 50:50 split involved in owning residential and commercial properties, but dropped out of the residential segment altogether after this. The reasons for doing so were the same factors that are present today – speculators putting up prices and that dealing with residential tenancies was becoming more regulated.

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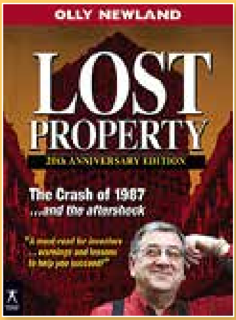
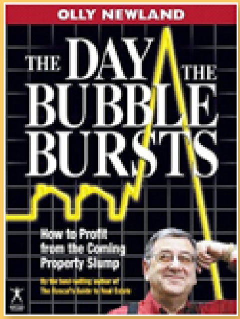
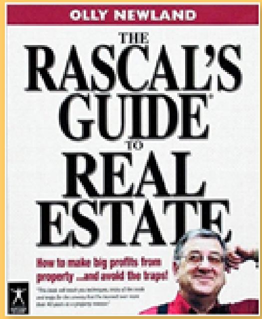
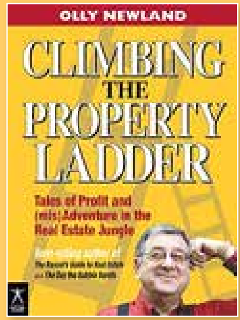








Property education and books

Throughout the 1970s he was one of the first to offer what he calls 'sensible' residential and commercial property education. He organised seminars, supplementing his own knowledge with expert guest speakers such as architects, accountants, lawyers and tax specialists. The interest the seminars stirred turned out to be the catalyst for what has become a second career as an author.

In his books, *The Coming Property Boom* (1978), *The Property Boom* (1981) and *Lost Property* (1994), Olly predicted many of the coming property market events. *The Rascal's Guide to Real Estate* (2002) is a practical handbook for property investors and *The Day the Bubble Bursts* (2004), written four years before the 2008 GFC, alerted investors about upcoming market changes. *Climbing the Property Ladder* (2005) is the story of his life as an investor.

Advantages and disadvantages of property investment

The 10 registered financial advisors under Olly's AFA qualifications, and who work at Newland, Burling & Co, give advice on any aspect of residential or commercial investment. The company aims to help clients create a passive income from prudent investment in commercial and residential property and achieve financial freedom through property investment. They look at the client's situation and see how any property sale or purchase will affect their whole investment portfolio. They help the client build this portfolio in order to get the best possible performance from their property investments for better capital growth and rental returns.

Olly believes there are a number of advantages to property investment:

- Land and buildings are a solid investment – the value cannot disappear overnight as in a sharemarket crash
- Property is often about gentle capital gain, although there have been some extreme increases in residential property for the last six or seven years
- Commercial property creates a passive income, as it does for residential landlord investors, but usually at a considerably higher return
- A property portfolio spreads the risk from other types of investment and, as mentioned, property is not usually subject to sudden downward movements
- A property can be used as leverage – you can borrow against it
- With a commercial building you are buying a business and if there is a very good lease in place its value can drive up the value of the building – the better the cashflow the more the building is worth
- Also with commercial property another advantage is that it is possible to buy anywhere in the country and still get a good yield. For instance, buying a residential house as an investment property in Rotorua or Invercargill may not give an exceptional return, but if a new KFC is opened up in these cities it will attract a lot of investor attention in New Zealand and overseas. In other words, you don't have to buy in Auckland to get excellent commercial building capital gain.

On the downside, however, there are disadvantages that potential investors need to consider:

- Property is not as liquid as other forms of assets like cash and shares – if you want to sell it may take a while
- There can be a very negative political and media bias against landlords (commercial and residential) – it sells newspapers to have stories about bad landlords treating tenants poorly
- The % yield can be much higher than a bank term deposit offers, but over time with rising expenses the profit can plateau or go down considerably
- Many people do not understand the different approach that needs to be taken as a commercial property landlord as compared to a residential landlord and this can cost money

Olly notes that New Zealand is heading towards a new type of property community where about one-third of people will be renting for life.

- A major concern for a commercial landlord is vacancies, which is why it is better to have a building with multiple tenants so the risk is spread. Residential properties are easier to let
- Since the Christchurch and Kaikoura earthquakes there is now considerable pressure on commercial landlords, as tenants are wanting leases in buildings with up to the highest level of NBS possible. Although the minimum level is 34% of the NBS, tenants are expecting at least 66% of the NBS, sometimes 80%. The plus side of this, however, is that the lease can be worth a lot more once the strengthening work has been done.

European rental model

Olly notes that New Zealand is heading towards a new type of property community where about one-third of people will be renting for life. This could even be a positive choice, where they want to rent forever and don't intend to buy their own home. He notes that in Europe life-time tenancies are encouraged and it is possible for the renter to buy the lease on a residential property and live out their life in the one place. Grandparents can even pass the lease onto their children and grandchildren over a number of decades. This is similar to the commercial property situation in New Zealand where some tenants lease their property for many decades.

An even more unusual renting arrangement that has developed in Europe is where apartments can be leased long-term totally bare. The tenants buy a lease at a reduced cost for the 'shell' of the apartment – the 'four walls' – and they have to provide (for instance) a flatpack kitchen, bathroom and toilet. They are also responsible for all interior decoration and maintenance repairs on everything but the shell, so the only maintenance the landlord has to do is on the building itself. Once the lease is over the tenant empties it out and hands back the shell ready for another long-term tenant.

Olly particularly likes the English model of muses where three-storey duplexes or triplexes are built in a development side by side. For him, this type of renting is at a more 'human' level than the large apartments that were built in the post-war era in the UK and Europe, which can easily turn into little more than slums.

Affordability shortage and capital gains tax

In Olly's view there is no housing shortage in Auckland – there is an affordability shortage. He says that currently in Auckland there are 12,000 houses for sale and 30-40% of those that go to auction don't get sold. This means there must be plenty of houses on the market but buyers are hanging out for a higher price.

This leads to the issue of a possible capital gains tax. He believes that as the family home will not be affected by this regime it could distort the market completely. For instance, an $800,000 family home with $100,000 spent on it could well make $1.1 million – and the capital gain is 100% tax free. He says it would be fairer, if a capital gains tax was to be considered, to tax any surplus retained by homeowners unless they invest the total into another property or reach retirement age

In Olly's view there is no housing shortage in Auckland – there is an affordability shortage.

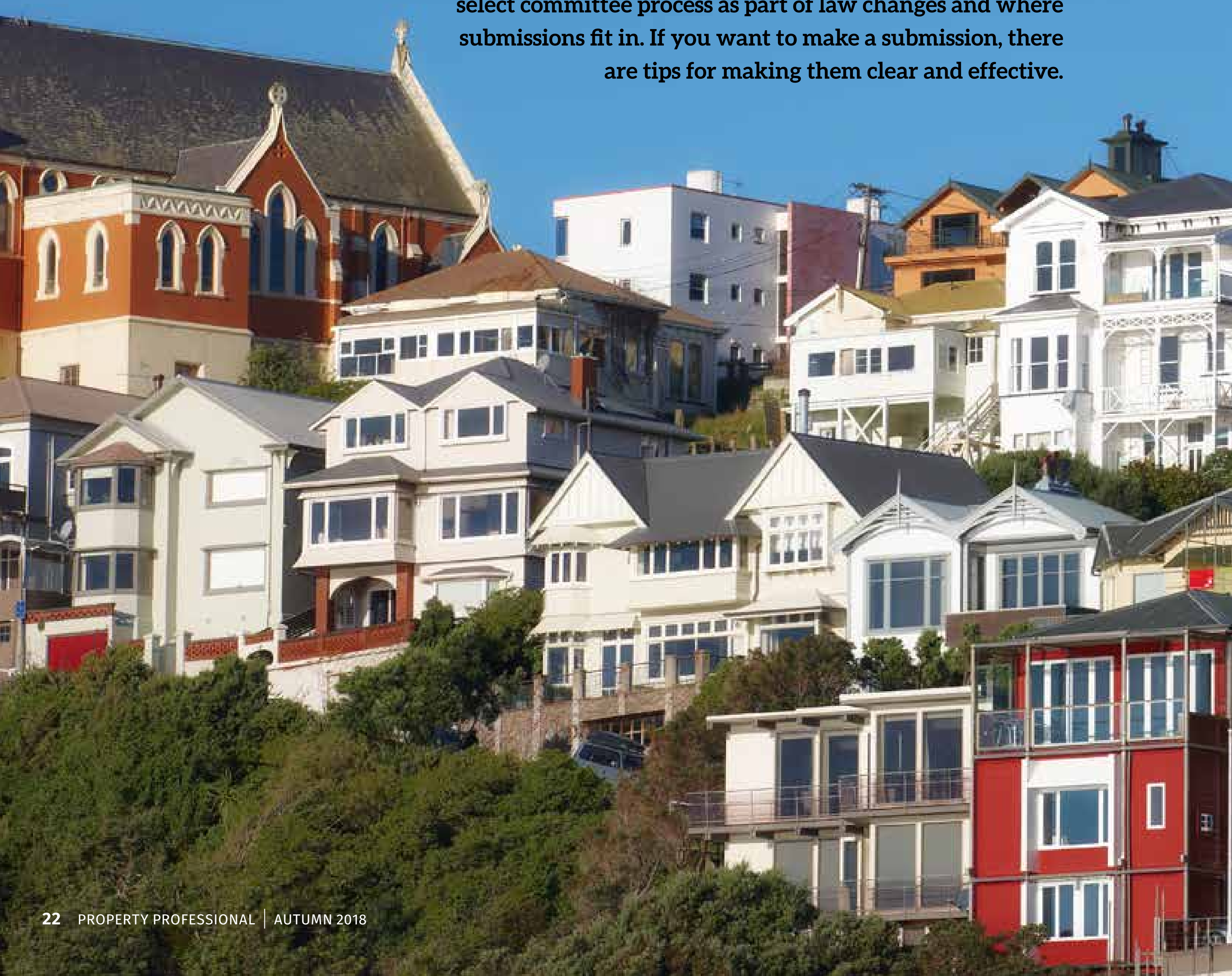
Olly Newland is an independent financial advisor, author, and commentator on the property sector. He currently co-owns and is one of the directors of Newland, Burling & Co in Auckland. o.m.newland@gmail.com

HAVING AN INPUT INTO FUTURE PROPERTY LAW:

Parliamentary select committees and how they can benefit you

SALLY MCKECHNIE

There are key legislative changes being considered by the new government. This article explains the Parliamentary select committee process as part of law changes and where submissions fit in. If you want to make a submission, there are tips for making them clear and effective.



Housing is high on the agenda for the new coalition government. Because of this there is much legislation on the horizon in 2018 that is likely to affect the property market. The Healthy Homes Guarantee Bill has already been passed and the Overseas Investment Amendment Bill, which would restrict overseas home buyers, is on its way through to becoming law.

But the Government still has a lot to cover. There is set to be a review of the Residential Tenancies Act at the end of this year, and changes to resource management regulation and limiting of property speculation could also be on the cards. While this will bring change, it also provides the opportunity for people and organisations to have their say on a number of issues in property law through select committees.

What is a select committee?

Select committees are made up of 12 MPs and they consider issues related to a particular area in detail. While select committees have a number of roles, their most important one is in the process leading to new legislation being passed.

Bill reviewing by select committees

The process of turning a Bill (proposed law) into an Act (law in force) is a long one for Parliament. It involves three 'readings', a number of votes, and inevitably many amendments and debates. If a Bill passes its first stage of voting it is usually sent to be considered by the appropriate select committee, which will review the Bill over

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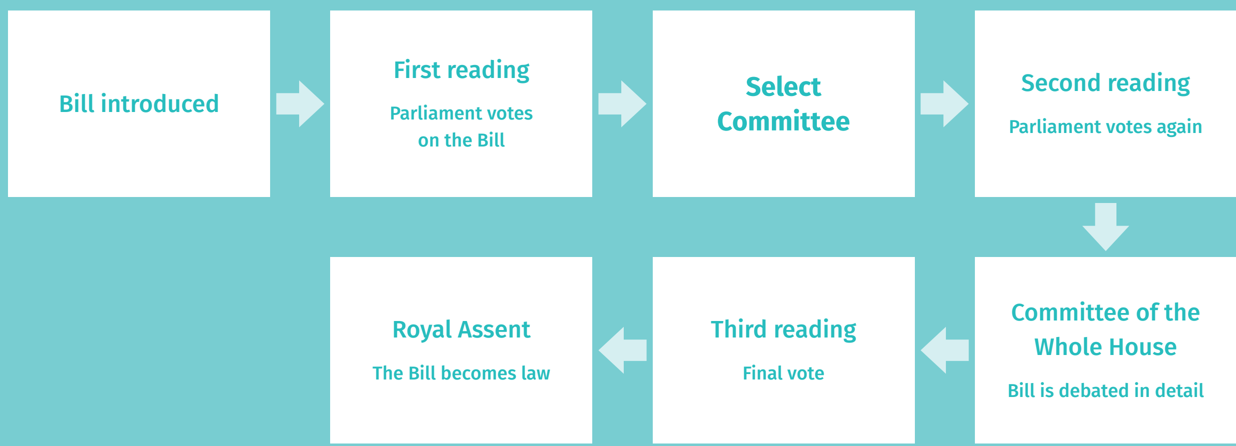
How select committees fit into the process of passing a Bill:



a period of six months. As part of this, committees can call for public submissions on the Bill, which they almost always do.

Submissions are how the public (both individuals and organisations) get to comment on a Bill going through Parliament and actively engage with the process of making law. Through this process the public can outline concerns or suggest improvements.

When a new Bill is sent to a select committee, the committee will consider the Bill, any submissions it has received from the public, and any advice from appointed advisers (who are usually from government departments). At the end of the six months the committee will write a public report to Parliament explaining its recommendations. It can recommend whether or not the Bill should be passed and specify any amendments it thinks should be made to it.

Make-up and functions of select committees

New Bills are sent to the committee which they are most appropriate for. There are 13 select committees for subjects related to the governing of New Zealand, and five other committees which consider things to do with the running of Parliament. Temporary committees can also be formed to consider particular issues.

There is no select committee dedicated to property issues, so a Bill which might affect the property market could end up in any one of a number of committees.

There is no select committee dedicated to property issues, so a Bill which might affect the property market could end up in any one of a number of committees. For example, the Overseas Investment Amendment Bill was sent to the Finance and Expenditure Committee, while the recent Residential Tenancies Amendment Bill addressing tenant damage and meth usage in rental homes went to the Governance and Administration Committee.

One advantage of select committees is that they are non-partisan because they have to reflect as closely as possible the proportion of seats in Parliament. So in a 12 person select committee, NZ First and the Greens would get about one position each, and National and Labour about five. The exact split varies from committee to committee, but the result of the recent election means that the National Party will be the biggest single party in most select committees.

Because of this National MPs might be able to have a particularly strong influence at the select committee stage if the different parties in government are divided on any issues. The showdown on the first day of the new Parliament, which led to more National Party MP positions, indicates how important select committees are in the running of Parliament.

Parliament can also instruct select committees to start inquiries, which are investigations into a particular area of importance for the country, without being related to a particular Bill. At the end of an inquiry the committee reports back to Parliament. Submissions from the public will usually be asked for. The new government has announced several possible future inquiries. Of these, both an inquiry into local government funding and rates and one into the EQC could have an influence on the property market.

Making a submission to a select committee

There are two ways of making a submission. The usual way is in writing, but you can choose to elaborate on or reinforce this in person in front of the select committee itself. Many people choose to do this and the select committee usually asks questions. Submissions can be in English or Te Reo Maori, and oral submissions can be given in New Zealand Sign Language (NZSL).

Written submissions

This is the usual, and easiest, way of making a submission. It can be done online through the parliament.nz website, or alternatively sent by post to Parliament Buildings. You can give your thoughts or comments on a Bill or other issue as a whole, or focus on a specific section or point, including those points or issues which have not been included but you consider should be.

Making a strong written submission

As with many things, the better written, better researched and better presented a submission is the bigger impact it will have on the MPs in a select committee.

Key points to note:

- ***Be clear and concise*** – select committee members will have to consider many submissions and other evidence for each Bill, inquiry or other matter they consider. Submissions which use clear, plain language, and are of a good length, will be received better by the MPs and understood more easily
- ***Be relevant*** – focus your submission on the Bill, inquiry or petition in question
- ***Research well*** – know the issue, be accurate and consider everything which could be relevant
- ***Have a strong structure*** – a submission with a clear and logical structure is easier for readers to digest. Start with your general position, then get into the details to back this up
- ***Make the date*** – submissions have tight deadlines and those made after the deadline will not be considered. If you are running low on time, a short initial submission can be made and further 'supplementary' submissions added to this later. Alternatively, extensions can be requested, but the committee has to agree to this and there is no guarantee this will happen.

Depending on the issue and complexity, you can use external experts to draft your submission.

Submitting as an organisation or company

Making a submission as an organisation or on behalf of a company can be very effective. Organisations can provide specialist knowledge on issues and outline how a Bill might affect New Zealand from a wider business perspective. In particular, they can obtain submissions from a large number of people in their organisation (even hundreds or thousands of submissions) and collate them into one document, which can be very influential.

Oral submissions

When you make a submission online, you can ask to speak to the select committee in person in addition to your written submission. There is a fair amount of flexibility in oral submissions. You can reinforce or elaborate on the content of your written submission, bring new evidence to the committee, or use the time to answer questions from the MPs about your written submission.

Generally, however, individual speakers only get about five to 15 minutes to speak so this time needs to be used effectively. Organisations can be represented by more than one person and submissions can be given by lawyers or other experts on your behalf.

Keep an eye out

Committees will usually advertise in newspapers, social media and on the Parliament website when they are requesting public submissions. If there is a Bill or another issue you or your company or organisation want to have a say on, keep an eye on its development so you know when you need to submit and can prepare for it. Select committees do not always ask for public submissions, although not doing so is uncommon.

Conclusion

New Bills can come up and be passed relatively quickly and the time given by select committees for public submissions is often quite short. However, submissions to select committees, especially in the current political environment, may be an effective way to make changes or improvements. Given the matters coming up this year, it could be worth starting to think about making a submission to a select committee.

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Disclaimer

The information contained in this article is general in nature. It does not constitute legal advice and should not be relied on as such. Specialist advice should be sought in particular matters

Sally McKechnie leads Simpson Grierson's government and public law practice in Wellington. This article was written with the assistance of Nick White, Summer Clerk at Simpson Grierson.
sally.mckechnie@simpsongrierson.com

CHANGES TO RESIDENTIAL PROPERTY

due to shifting needs in infrastructure and utilities

VAUGHAN WILSON

This article looks at future influences on residential property design – from the ongoing developments in solar electricity generation, electric vehicles, climate change and the change in people's work habits, to lifestyle needs and a generally better approach to the environment.

Increasing level of change

Traditional designs in residential and commercial property have changed greatly over the last 15 years as owners and tenants want warmer, drier, safer and more environmentally-friendly property. So far, this has had minor influences on residential property and there have been more significant changes to commercial office property in the form of green buildings. Since the earthquakes in Christchurch and Kaikoura more attention has been paid to structural integrity, with environmental factors taking a back seat to seismic safety.

However, the spotlight is quickly moving back to the environment and the way climate change will influence property and property needs, along with changes in technology and the pricing of technology.

Reasons for the changes vary from one person to another and include:

- People wanting to be more environmentally-friendly
- People wanting to insulate themselves against climate change and risk to their lifestyle and workstyle, and even being independent of the 'state'
- People seeking cost savings, both upfront and ongoing
- People wanting to be at the cutting edge of change and technology, including having a good corporate citizen profile.

Recent and future changes in residential property design

When I was growing up in the 1970s, typical New Zealand houses were made of timber, were modest in size and generally had one bathroom, sometimes two. People were starting to build rumpus rooms and things were moving to open plan. Fast forward to today and New Zealand has shifted to much larger houses, multiple bathrooms and bedrooms, and they are made from varying building products. This country now has the third largest average house size (218 m²) in the world behind the US (249.5 m²) and Australia (231 m²).

But this trend is changing. There is a move worldwide for smaller houses that

San Diego Zoo carpark solar panels for car charging

There is a move worldwide for smaller houses that are better designed to meet the changing needs in lifestyle and availability of space.

Mounted solar panels on apartment block in San Diego

are better designed to meet the changing needs in lifestyle and availability of space. No doubt Auckland will see this change first as the population increases faster than anywhere else in New Zealand, and the recent significant increases in land value mean more intensive residential land use as now allowed for in the Auckland Unitary Plan.

This country's population is growing faster than at any other time in its history, with a 100,400 increase in people living here (12 months to June 2017). This is being driven by both migration and by New Zealanders coming back home from overseas. Migration may of course be scaled back by the new government, but there is a real pressure to retain current levels with the growing economy needing additional human resources in numerous professions and skills.

Environmental effects on housing and utilities

Recent earthquakes and climatic situations have shown our traditional form of utilities and even roading are not up to the challenge. During the Kaikoura earthquake Wellington had hundreds of landslides, many minor but some very major, severely restricting transportation for people. To date, the Manawatu Gorge is still closed and may stay that way indefinitely, with permanent alternatives some years away. In 2017, there were 50 weather-related power outages on the national grid. That was almost 25% more than the average, up from 36 in 2016 and 29 in 2015.

Changes in the world's climate are starting to take effect. Biblical levels of flooding, such as experienced in Edgecumbe in 2017, are forecasted to become more mainstream. In early 2018 the Grey and Buller Districts declared a drought, only their second in recorded history. Twenty-four hours later Greymouth had massive flooding, experiencing 148 mm of rain in a single day. The Ministry for the Environment is estimating average temperatures will rise by up to 1°C by 2040 and 3°C by 2090.

Electric cars, renewable energy and the national grid

Cars powered by electricity have been around since the early 1900s, with even London cabs at one time being driven by volts, not dino juice. However, oil-based propulsion has been the method of choice, in part because of the cheap and plentiful supply of oil mated to the performance of the internal combustion engine. Now there is increasing attention paid to electrical propulsion, partly due to the cost pressures of oil, partly to state/federal pressures, and partly to consumer environmental demands. Car manufacturers are moving quickly to meet these, along with a bevy of new entrants such as Google and Tesla leading the charge.

The main challenges to be overcome for electric vehicles are:

- The range of the batteries in vehicles
- Acceleration and overall speed of vehicles
- Ability to re-charge batteries quickly and easily
- Torque – the ability of vehicles to carry heavy loads.

Companies are working on these challenges and for the most part they are quickly being overcome. Hybrid vehicles were a good stop gap, but technology is improving at such a rapid rate that the latest Tesla vehicles are now quicker (1.9 seconds from 0 to 100 km per hour) than any petrol-powered vehicles, including high-priced sports cars. Most car manufacturers have a large number of new models in development, with many of these to be unleashed to the market from 2020 to 2022. Electric-powered large trucks are being developed as well.

Currently, electric vehicles are expensive to purchase, and for most a brand new electric vehicle will never be a

Recent earthquakes and climatic situations have shown our traditional form of utilities and even roading are not up to the challenge.

Electric car charging in Wellington

Changing the ways we design and build residential stock and how we refurbish existing stock will allow people to take advantage of solar power more easily.

financially feasible choice considering the significant upfront cost. Purchasers include individuals who are early adopters wanting the latest technology first, or perhaps they want to do their part to look after the environment. Similarly, companies are purchasing them wanting to demonstrate their good corporate citizen status. The New Zealand Government has a goal of 64,000 electric vehicles on the roads by 2021.

The elephant in the room is that currently in New Zealand electric vehicles do not attract any form of road user charge that is paid for by petrol consumers at the pump or by diesel users in the form of a road user tax per kilometre. The Government will eventually bring these charges in, currently stating it will be when the number of electric vehicles makes up 2% of the total vehicles on the road (for the light vehicle fleet, a similar exception for heavy vehicles).

As the technology improves, and as electric vehicles are manufactured in larger numbers, the purchase cost will rapidly decrease. This will make the economics feasible for the consumer, and the road user charges (estimated at an average of $600 per year for electric vehicles) will become more comparable to petrol/diesel-powered vehicles.

Over 80% of New Zealand's current electricity generation is via renewable sources such as hydro, and this is increasing as older carbon-based generation is supplanted by new renewable formats. This also makes electric vehicles better for the environment compared to some overseas markets where the electricity is largely produced by carbon-based methods, making the argument for electric cars no better for the environment than conventional petrol/diesel vehicles.

Over 85% of our current housing stock has off-street parking, making overnight charging easy. Most New Zealanders only travel 22 km per typical day, and at current electricity prices a full charge overnight is $3 (equivalent to paying 30 cents per litre of petrol in relation to kilometres that can be travelled).

Even with the migration mentioned above, New Zealand's large-scale electricity generators have been able to cope with demand because of what has been gained from more efficient electricity consumption in the form of LED lighting, green building improvements, low use appliances and better housing stock, all reducing heating costs.

LED lights have had such a worldwide effect on lowering electricity consumption that their invention has been recognised, with its three developers awarded the 2014 Nobel Prize for Physics. Adding large numbers of electric vehicles to the grid will require either new forms of electrical generation to the public grid and/or some of the changes proposed in the rest of the article.

Solar energy and housing design considerations

Changing the ways we design and build residential stock and how we refurbish existing stock will allow people to take advantage of solar power more easily, generating and storing this power. Design changes can also insulate inhabitants from civil defence events that affect utilities other than just electricity, such as water shortages.

Solar-based electricity generation on residential properties has become popular of late since the cost of the photovoltaic cells have become much cheaper to buy. Given that most people use their cars during the day to go to work, the residential-based solar panels will not benefit the electric car user unless they have batteries at home. Battery development is the biggest part of electric car development. Effectively, it is bolting a whole lot of laptop lithium batteries together. In fact, the first Telsa did exactly that. This makes Chile very happy as they hold most of the world's lithium reserves.

Residential battery banks have benefited greatly from advances in vehicle electric technology (Tesla's subsidiary Powerwall is one of the world's leading home battery supply companies), and these improvements have been utilised for home storage. Storing power from solar and wind generation has improved significantly, and the prices are dropping as the technology becomes more mainstream. The life of the batteries, which was always an issue in the past with a life of 10 to 15 years, is also improving.

Residential design needs to allow for solar panels, often installed on the roof. In high wind areas that could mean designing the roof for the additional weight and wind loadings. It also means designing a roof that faces the predominant sun patterns. This may be an affront to how a roof shape would normally be designed for aesthetic reasons. Solar design therefore needs to influence the shape, contour, profile, material type, gable, hip and aesthetic design as well as the direction of the roof.

Battery positioning is not always straightforward. They should be placed to be safe, and within easy reach for maintenance and battery replacement in the future. Installing the batteries during construction may be practical at the time, but it may prove to be near impossible to maintain or replace them at some point in the future, especially as they are inherently heavy.

Charging an electric vehicle also has its challenges. There are a number of plug and lead choices, many of which come with the vehicle, and each provide a different rate of charge. Wiring up an external plug (either on the driveway or in the garage) with a thicker lead will allow for faster charging. Very fast charging, as found in some charging stations, is currently very expensive and outside the domain of many. Even councils often look to a slower and cheaper version for street-based electrical charging. However, this technology should come down in price, therefore benefiting all who want to charge their vehicle more quickly.

Of course, going off-grid can have a detrimental effect on other users. For instance, if enough people remove themselves from the power grid (national grid and local lines distribution, using only their solar generation), then the ongoing maintenance of the national and local grid will be met by a smaller number of users. It will take a long time for this to have a detrimental effect, but theoretically it would be expensive for conventional consumers if enough other residences convert to 100% self-generated electricity.

For many years, people have tried to consume electricity in the wee small hours when the electricity price is cheapest, e.g. 12am to 5am. With solar power this moves this behaviour to during the day, and with the advances in artificial intelligent appliances it is easy to do this. Appliances can be programmed to operate whenever the user wants, even from their smartphone, or they can detect the level of sunshine and battery levels and turn themselves on when a pre-determined level of power is available.

Utilities in a crisis

Overcoming water shortages during a civil emergency can best be met with an external water tank. There are a number of options on the market, including some conventional round tanks either buried or sitting on the surface. Other options available include soft tanks that can fit under decks or in unusual shaped places. A large number of people bought tanks straight after the Kaikoura earthquakes (supplies sold out initially). Many were 200 litres, but these are relatively small if the civil emergency is ongoing.

The Civil Defence Wellington Regional Emergency Management website recommends 20 litres per person per day for seven days. For a family of four, that is 560 litres. Of course, water for drinking is only around three litres per person per

Residential water storage

day, but when you factor in other water uses (including cooking, cleaning etc) the requirement is therefore larger.

Utilising hot water will for most people need to be an external device, e.g. heating water on a BBQ as the hot water cylinder is difficult to connect to an auxiliary supply of water and the electricity might not be on. Similarly, a gas-powered hot water system is also difficult to connect to and gas supplies may be compromised during the emergency situation. An auxiliary generator can be purchased, but unless it is very large its use will be restricted to lighting and the fridge.

A large number of people bought tanks straight after the Kaikoura earthquakes (supplies sold out initially). Many were 200 litres, but these are relatively small if the civil emergency is ongoing.

Public charging station

Who knows what the future may bring? Perhaps soon it will be feasible (both technically and economically) for curtain glass walling and windows in houses to include photovoltaic cells.

Larger water tanks can also benefit in other ways if they are connected to the downpipe system on the roof. This means they can collect rainwater during extreme rainfalls, thereby reducing the volume of water in the stormwater system, which often fails to cope during extreme weather – causing flooding in streets. This is particularly so when land is more intensively used, thereby reducing the level of under-developed land to absorb rainfall.

For those who want to live through a civil emergency without having to use community-based port-a-loos, there is the option of having an on-site composting toilet. However, there are a number of restrictions around these in residentially built-up neighbourhoods. Most require a consent from the regional council, especially if the system will be the way the day-to-day waste is dealt with rather than a back-up system.

Working from home

People have long had an office or den in their home, which has often doubled as the rumpus room, sewing room or spare bedroom. Ongoing developments in residential design mean smaller homes, but the one area that this may actually change is a dedicated office, thereby requiring more space. Working from home has many advantages, both to the user and to the greater community. It means less people in transit on any given work day, reducing carbon consumption, or at the very least less vehicles on the road.

Previously working from home had drawbacks in having enough internet capacity in residential areas. Now that much of the country has fibre installed, and much of the remainder of the country is staged for having fibre or high-speed mobile, the flexibility of working from home has never been better. The fibre allows for high-speed data transfer, including working from the Cloud and video conferencing.

What the future holds

In my view, in the future electricity will in some cases become a free commodity used to entice the consumer, like wi-fi is used presently. For example, the larger retailers such as Briscoes, New World and Mitre 10 Mega may install large format solar panels on their roofs and offer their customers free electricity in the carpark (in the form of electric car electricity dispensers) in return for shopping at the store. The surplus electricity generated from this type of installation could be used by the store itself to reduce its grid-based electricity needs.

Who knows what the future may bring? Perhaps soon it will be feasible (both technically and economically) for curtain glass walling and windows in houses to include photovoltaic cells. Until then, the above suggestions may help overcome the increased forecasted demand for electricity and other utilities in times of normality and in times of civil emergency, and working from home may become (for many) their primary office environment

Related information

https://getprepared.nz/personal-preparedness/how-to/store-water/

http://getthru.govt.nz/how-to-get-ready/how-to-store-water/

https://wellington.govt.nz/services/environment-and-waste/water/wellingtons-water-supply/your-emergency-water-plans

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www.transport.govt.nz/ourwork/climatechange/electric-vehicles/

https://ecotricity.co.nz/electricvehicles/

'Seeking connection in lonely times', Sally Duggan, *Dominion Post*, 13 January 2018

'Home truths', Ged Cann, *Dominion Post*, 13 January 2018

Vaughan Wilson is a Director of Wilson Hurst Property Services operating in Auckland, Wellington and Christchurch.
vaughan@wilsonhurst.co.nz

AVIATION

DAVID
MACMILLAN

Aviation valuation is probably one of the least understood valuation professions. David Macmillan has been providing aviation valuations for over 30 years in New Zealand. In this article he outlines some of the issues around, and the skills required to do, this type of work.

What is aviation valuation?

There are hundreds of different makes and models of aircraft and they all have complex airworthiness requirements that need to be understood before anyone can estimate a value.

Aviation valuation work includes providing written valuations for aeroplanes, helicopters and aviation support equipment such as specialised tools and machinery required for maintenance. This type of valuation includes role equipment such as helicopter fertiliser buckets and spray gear. The valuations are normally requested by the owners in support of finance (the main reason), insurance, sale of the asset, company records and disputes etc.

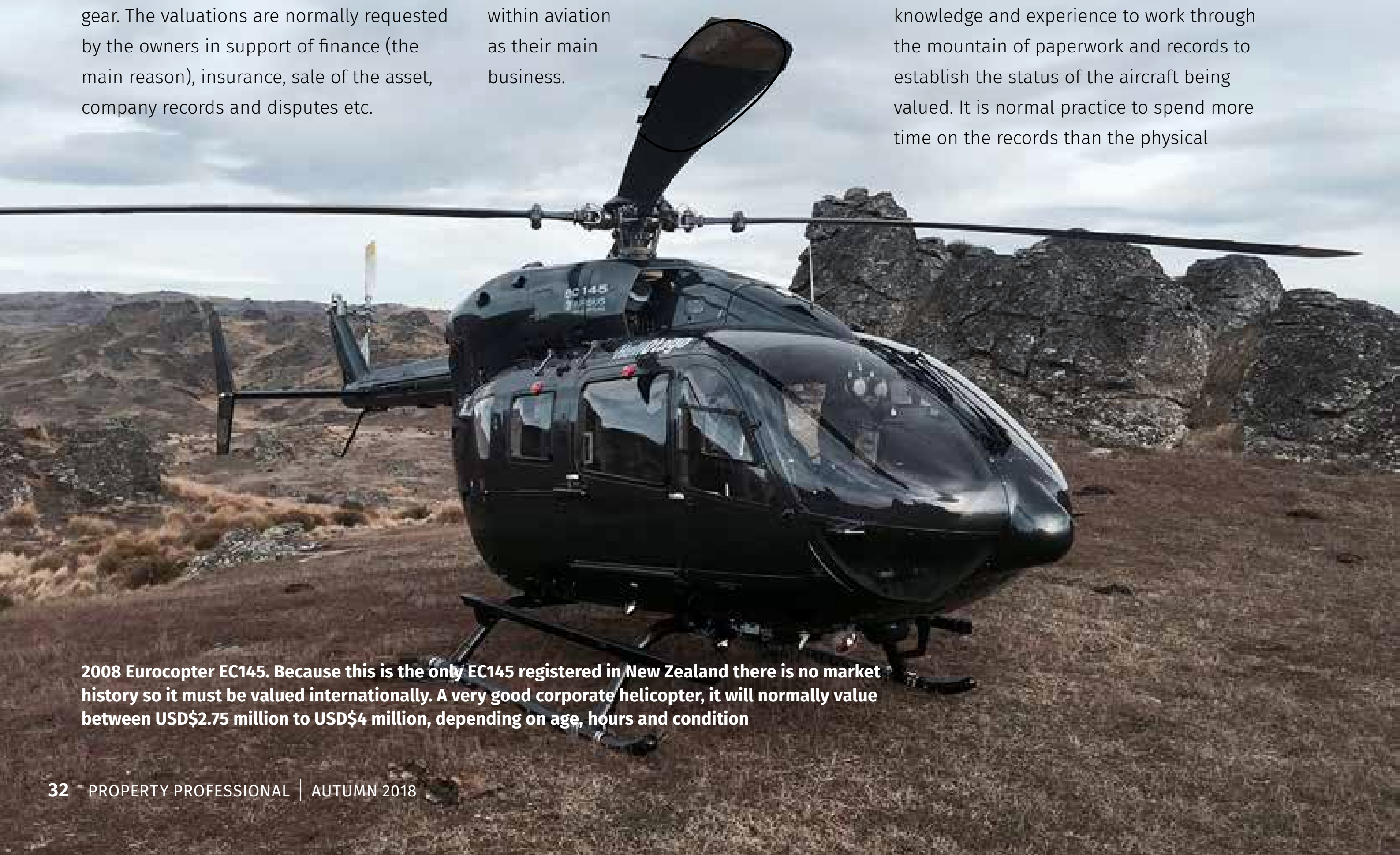
Who can provide an aviation valuation?

Anyone who is brave enough can provide a valuation for an aircraft. There are only two registered aircraft valuers in New Zealand, one in the North Island and myself in the South. Most finance companies and banks have an in-house list of preferred valuers, and it is not a condition that an aircraft valuer be registered because it is based on experience, previous record and knowledge. Valuation work in New Zealand is limited, so most valuers are engaged in other activities within aviation as their main business.

Aircraft records

An aircraft, particularly a helicopter, is a very complex collection of components. Most of them have an individual finite life measured in flying hours and/or calendar life. No two used aircraft will ever value the same, even though they may look the same and be built by the same manufacturer at the same time. The only time values are the same is when the aircraft is new, and even then they can vary by thousands of dollars, depending on the options fitted.

A valuer needs to have specialist knowledge and experience to work through the mountain of paperwork and records to establish the status of the aircraft being valued. It is normal practice to spend more time on the records than the physical



2008 Eurocopter EC145. Because this is the only EC145 registered in New Zealand there is no market history so it must be valued internationally. A very good corporate helicopter, it will normally value between USD$2.75 million to USD$4 million, depending on age, hours and condition

VALUATION

inspection of the aircraft. Most aircraft valuers internationally have a broad history within the industry of aircraft sales and aircraft engineering, and most are qualified pilots.

All New Zealand registered aircraft are required to carry Civil Aviation Authority (CAA) approved documents at all times, including:

- A Certificate of Airworthiness
- The technical log, which records hours flown on a daily basis
- Details about the airworthiness of the aircraft
- An avionics list
- An up-to-date flight manual – this is similar to an owner's manual in a vehicle as it gives the pilot information on emergency procedures, weight and balance, performance and normal operating data.

My own journey

I have been providing aviation valuations since the early 1980s when I was working as South Island Area Manager for the Cessna Aeroplane and Hughes Helicopter New Zealand agent.

My responsibility was to manage several aircraft maintenance workshops situated in three locations in the South Island, and the marketing and sales of the new and used aircraft we provided.

In those days, a valuation consisted of a few paragraphs on a company letterhead and a signature. We didn't charge anything for it as it was just a part of our support to the industry. Most of the valuations were to one of the major finance companies who were the 'go to' places for aviation finance.

In the early 1990s, I decided to set up my own aircraft sales and support company which I still manage today. The valuation work continued, and many of the commercial operators started expanding their operations and getting more aircraft. I quickly found myself involved in quite large valuation assignments involving several machines. I remember feeling very uncomfortable once being asked to value 20 helicopters.

Link to PINZ

It was about then that I started to think about getting some more knowledge and support for the valuation work, so in the late 1990s I joined the Institute of Plant and Machinery Valuers (IPMV) and subsequently gained registration with this organisation which is now incorporated within the Property Institute of New Zealand (PINZ). Valuations are now completed in accordance with the International Valuation Standards, IVS103 and IVS220 Plant & Equipment.

No two used aircraft will ever value the same, even though they may look the same and be built by the same manufacturer at the same time.

Cessna 177B. Built in 1973, well maintained and still giving good service. Typical private owner aeroplane in New Zealand. Current value between NZ$30,000 and NZD$70,000

1995 Eurocopter, which is very popular in New Zealand for a variety of uses from utility through to sightseeing operations. This one is in the shop for maintenance – a good time for a valuation while it is all apart and easy to see. Current value between USD$750,000 and USD$1.3 million

The average helicopter in New Zealand will cost anywhere from $100,000 all the way up to $11 million.

Helicopters

Aircraft valuers joke that helicopter is a foreign word meaning 'expensive'. That is no exaggeration because everything remotely connected with a helicopter is very costly. We deal with it on a daily basis and have become used to this to the point where any component that costs less than $50,000 often sparks the remark, 'Is that all?'

Helicopters come in all shapes and sizes. Generally, the bigger they are the more they can carry, and the more they cost to buy and maintain. The average helicopter in New Zealand will cost anywhere from $100,000 all the way up to $11 million.

Piston-powered helicopters

The small two and four seat piston engine machines, such as the Robinson R44 and R22 helicopters, will cost between $100,000 and $500,000 for a good used one. These have a wide use, from private transport to light utility work. The Robinson is relatively simple to value because the whole helicopter has a finite overhaul life of 2,200 hours or 12 years.

It costs about $350,000 to overhaul an R44 and $200,000 for an R22. Most piston engine helicopters are valued in NZD and market information comes from the local market, including Australia.

Turbine-powered helicopters

There are a number of issues with valuation as we move into more sophisticated turbine-powered machines. For a start, dollars are quoted in USD and most turbine helicopters are valued in USD currency. Very few of these helicopters have a finite life on the whole aircraft. Instead, most of the components have different hours available based on either hours flown, cycles or calendar, and some components have all three. Even the turbine engine is divided into a multitude of parts and assemblies, all with different overhaul requirements.

So it is head down in the records for hours, checking serial numbers of components against hours flown and hours remaining. Most maintenance companies now have the records on a spreadsheet, which makes life easier. The other consideration with the maintenance requirements on these and most aircraft is to check that there is no outstanding mandatory airworthiness special inspection pending.

Just recently, a mandatory notice from the engine manufacturer called for the removal of a turbine wheel the next time the turbine was removed for any reason. It so happened the helicopter I was working on needed the turbine removed in less than 150 hours, for a USD$50,000 job, but that became a USD $100,000 job overnight. It was valued accordingly. The importance of component status is understandable when some components can cost up to USD$450,000 to overhaul, particularly if the market value of the whole helicopter is only USD$700,000.

The turbine helicopter is an international commodity with an international market. That is why when we mostly provide a valuation expressed in USD it is not unusual to discover the helicopter being valued has been owned and operated in several countries all over world. Indeed, we advertise New Zealand registered machines internationally and regularly buy and sell offshore. Sometimes there is no recent sales history locally to use as evidence, so we need to gather information from wherever we can on recent sales and similar machines being offered for sale.

Fixed-wing aeroplanes

Most light general aviation aeroplanes in New Zealand are privately owned and most were built before 1985. We are not talking about the Microlight, or the homebuilt Ultralight sports aircraft. We do not get involved with that market segment as it is a specialist area, and very popular with private owners looking for a fun machine at low cost.

2006 Piper Meridian, this is the flagship of the Piper single engine turbine-powered aircraft. Built with the corporate market in mind. Difficult to value in New Zealand, this one moved on to a new owner in Australia after about four years in private use here. Value in the USA is USD$600,000 to USD1.1 million, depending mainly on the engine status and avionics fit

Most light general aviation aeroplanes in New Zealand are privately owned and most were built before 1985.

Our focus is on the well-known and proven light single engine and twin engine aeroplanes which have a huge presence in our skies, such as the American built Cessna and Piper. There are hundreds of them on the New Zealand register, and they are used for private transport, air charters, flight training and tourist operations.

Cessna and Piper are still building new aircraft, but not too many are operating in New Zealand because of their cost compared to the old machines. A single engine Cessna aircraft built in the 1970s will cost anywhere from NZD$25,000 up to NZD$250,000, depending on the model, condition and hours remaining. A new Cessna single engine costs in excess of NZD$500,000 for the most popular models.

Most valuations for this segment are current market value and normally required for finance.

The process is relatively straightforward as there are not as many moving parts, and as such overhaul and replacement is normally limited to those components such as the engine, propeller, engine accessories and avionics. Some aeroplanes have a finite life on airframe parts, such as wing components, but most are on condition. The older aeroplanes often have an ageing aircraft major structural inspection requirement, which is repetitive and based on hours flown and/or calendar life.

As with everything else in aviation, good records are as important as the condition of the aircraft. You cannot have one without the other – they say an aircraft would never get off the ground if it had to carry the weight of its records!

Travel

Obviously anything to do with aircraft involves travel because the aircraft are scattered throughout the country and it is normally too expensive to fly any distance for a valuation inspection. We often travel all over New Zealand to complete a valuation, and sometimes to Australia and the Pacific Islands.

Quite often the maintenance provider is based at the same airfield as the aircraft or reasonably close, so we can talk with the engineer responsible for its airworthiness at the same time. Most of the records are usually held by the engineers and it is easier to inspect them on-site, plus we can get our own photos to use in the report.

Quite often if the report is being used for finance, the finance company will request a desktop valuation, particularly if they know their client or they have had the aircraft valued in the past. They acknowledge the fact that travel and sometimes accommodation can add a lot of cost for their client. We don't have any problem with that request provided the records are good enough, we know the aircraft and we can talk with the engineer. However, our report has plenty of disclaimers if we have not inspected the machine.

Limited work available

We have one client who has several fixed-wing aircraft and they require a fresh inspection and current market value report on an annual basis, and we have been providing this service to them for the last 25 years. However, this is a rare situation.

I doubt there is enough valuation work in New Zealand for a full-time aircraft valuer, as everyone involved here has other business interests and, as mentioned, the valuation work is a sideline or an essential add-on to an existing aviation business. Much of the work is repetitive, updating previous valuations for the leading finance companies or aviation companies requiring annual valuations for their company records. It is, however, a very rewarding area of valuation to be involved in and it is a good skill to take overseas looking for work

David Macmillan (SPINZ) is a Registered Aviation Valuer and Managing Director of Airflite South Limited based in Dunedin. dave@airflite.co.nz.

TRANSMISSION LINES

Importance of transmission infrastructure

Transmission lines are part of the New Zealand landscape and provide the vital connection between generation capability and the end users. Disruptive and emerging technologies may change this picture in the future, but for the time being we can expect significant maintenance, improvement and new development projects in the energy sector.

Much of the national electricity grid was developed, along with generation capacity, in the early to mid-1900s. Due to ageing infrastructure, increased energy demands, the need to improve service reliability and elevated safety concerns, transmission companies are committing significant investment into this area.

Historically, compensation for the occupation of land by transmission lines was given little consideration and was mostly deemed 'for the national good'. However, transmission infrastructure by its nature can be a significant factor in the landscape and have impacts on property values. In recent times, there is an increased expectation of compensation and growing sensitivity around the impact of transmission lines in our environment and on property values.

Legislative framework

The Electricity Act 1992 outlines some of the legal structure and a degree of protection to landowners and transmission companies alike. 'Injurious affection' is a compensation concept that considers the loss in value to individual properties affected by a having land taken as part of new infrastructure developments or upgrades. It can further be described as a permanent adverse effect on the owner's land which is substantial enough to affect the owner's use and enjoyment of the land and, as a result, the value of the land.

Transmission lines are part of the New Zealand landscape and provide the vital connection between generation capability and the end users.

AND COMPENSATION IN THE RURAL SECTOR

CHRIS BOYD

Transmission infrastructure can be a significant factor in the landscape and have impacts on property values. In recent times, there is an increased expectation of compensation and growing sensitivity around the impact of transmission lines in our environment. This article looks at what constitutes fair compensation.

Section 23 of the Electricity Act 1992 identifies injurious affection as the threshold for the requirement of formal easements and the consideration of compensation. Power lines occupy properties under the rights provided by this legislation or the formality of an easement registered on the title.

Under the Public Works Act 1981, injurious affection is expressly required to be injurious affection to the land and is linked to the physical interference with the land, and/or the loss in enjoyment or value of the land.

Transmission companies may use Requiring Authority status under section 167 of the Resource Management Act 1991, and the Public Works Act 1981, to provide the basis for the consideration of compensation. Alternatively, a negotiated settlement of compensation may be considered between the respective parties. Local councils and the New Zealand Transport Agency use Requiring Authority status under which roading projects are progressed and the principles around the assessment of compensation are entrenched in case law.

Compensation consideration process

If formalised transmission easements are required, the consideration of compensation process is undertaken to establish a fair payment to landowners for the market impact on the value of their land of the proposed transmission infrastructure. Fair compensation, under the umbrella of the Public Works Act 1981, is based on the perceived impact on market value to the individual property from the impact of the works. Personal distress and individual issues outside the umbrella of property impacts are not material in the compensation consideration.

It is often less challenging to determine transmission line impacts on land values in urban environments. Generally, urban areas are more uniform and provide a greater density of property affected by infrastructure.

What is fair compensation? The consideration of compensation process often involves the assessment of a large volume of property types with unique profiles and land use. Depending on the scale and scope of the project, registered valuers can choose to adopt different approaches.

Before and after market values

This is the primary methodology used for establishing a fair compensation and it involves the assessment of before and after market values. The difference between the two values represents the amount of compensation to be paid to landowners.

It is often less challenging to determine transmission line impacts on land values in urban environments. Generally, urban areas are more uniform and provide a greater density of property affected by infrastructure. Thus, we can rely on a wider sample of market sales and higher volume of discernible impact evidence to use in our analysis.

Similar property types provide the best evidence for comparison. In the rural sector, because of the greater diversity of property type and size, and with varying sensitivity based on commercial, health and aesthetic considerations, the sales analysis is most often inconclusive due to the mix of influences in the value.

Easement fee methodology

In rural areas, all properties are unique and the impact of transmission lines on those properties is also unique. Smaller lifestyle-type properties generally reflect higher levels of impact that are not useful in understanding or consistent with larger pastoral properties.

Forestry plantations require an alternative treatment altogether. The easement fee methodology has been developed for the analysis of sales, and establishing fair compensation for landowners when there is no simple and transparent market evidence available to compare properties directly.

The use of market sales is still the core principle. However, as part of the sales analysis and valuation assessment we identify a number of variable impacts that affect the value of the individual properties. Examples include factors like the type of property impacted, the size and location of the proposed easement, the quality of the house and proximity to the transmission lines and the mix of land classes.

Using the available analysed market evidence, we then consider the value impacts to a variety of property components, with the cumulative amount representing the total modelled property impact. The impacted value is then compared, on a total property basis, with the impact sale evidence to confirm the appropriate level of compensation and the after property value.

This methodology has been accepted by landowners and valuation professionals in both New Zealand and Australia, because it applies a consistent approach and thus provides a good basis for ongoing comparisons between affected properties.

Usually both the parties involved in the process will obtain valuation advice. Resulting differences may be dealt with in a number of ways, depending on the structure of the process. Examples are direct negotiation, the use of expert determiners and the use of arbitrations and Land Valuation Tribunal hearings as a forum.

Conclusion

Because of the constraints imposed by the limited market evidence and the complexity and scale of these projects, it is always recommended that appropriate, robust and independent advice is sought in what is generally a niche segment of the property advisory sector

Chris Boyd is Director of Rural and Agribusiness Valuation and Advisory Services at Colliers International based in Tauranga. chris.boyd@colliers.com


GET AHEAD OF THE COMPETITION

2018 PROPERTY INSTITUTE CONFERENCE

28 & 29 June 2018, SkyCity Hotel, Auckland

In a changing property market, professionals are always looking for a competitive edge, and so was born the theme of this year's Property Institute Annual Conference 'Playing With a Winning Hand'.

The conference this year will be held at Auckland's SkyCity Hotel, and as usual there'll be a themed welcome function after the AGM on 27 June.

Of course, being in the City of Sails offers delegates the ability to do a bit of business while they're there, or to enjoy the many entertainment options that are available in the central city.

The conference itself gets underway the following day on the 28th, with our increasingly popular black tie awards ceremony and dinner that night.

We've now opened nominations for the 2018 Property Institute Property Industry Awards. If you're interested in entering take a look at the advertisement on page 44 and fill out the nomination form on our website.

The last conference held in Queenstown attracted more than 230 delegates, which was a terrific result for a location that a number of people commented was tricky to get to and tended to be a bit pricey.

With the budget conscious in mind, the Property Institute has introduced a 'Super Early Bird' registration offer this year which runs until 13 April. At $900+GST, it could save you a few hundred dollars per head.

At this year's conference, there will be a full programme covering specialist Commercial, Residential, Property Management and Advisory topics, as well as the usual valuer-focused stream, including ethics, standards and other relevant workshops.

One of the things the Institute has re-introduced after receiving member feedback is a series of site visits, which should be of real interest in Auckland where there is no shortage of development.

There'll be trips to the SkyCity International Convention Centre (right next door), the Hobsonville housing development (transport is provided) and Commercial Bay projects.

Alongside the workshops and visits there'll be a line-up of top speakers and over the next couple of months members should keep an eye on the Property Institute website (www.propertyinstitute.nz) to find out the latest confirmed additions to the agenda.

Paul Bloxham

One of the first cabs off the rank at Conference 2018 will be HSBC's Chief Economist for Australia, New Zealand and Global Commodities, Paul Bloxham.

Members may remember he was the one who coined the phrase 'rock star economy' which gathered a lot of currency on this side of the ditch.

Paul has published a number of papers, including on housing and household finances, asset prices and monetary policy and global commodity market trends – and he's a regular commentator on local and international business television and a frequent contributor of opinion editorials to the Australian newspapers.

In 2017, Paul's team won two Focus Economics awards: for best overall




forecaster for each of Australia and New Zealand. He is also a member of the Australian National University's Shadow Reserve Bank Board and is an Adjunct Professor at Curtin University.

Paul has tentatively titled his presentation 'the rock star' has new managers. It will be fascinating to hear what he has to say about the state of the Kiwi economy, and how his views stack up next to the four bank economists we have featured at the beginning of this magazine.

Here's a taste of what you can expect from him:

> *"The challenges are that business confidence has fallen recently, the housing market has cooled, and there are doubts over whether the considerable pipeline of building work can be delivered. We see these as manageable. Uncertainty around the change of government seems to have been the main driver of weaker business confidence and we expect it to improve. The housing cooling was needed and partly reflects tight prudential settings, which have subsequently been loosened.*
>
> *"We expect a shift in the policy mix in 2018. A bigger fiscal 'party', given plans to boost public spending on health, education and infrastructure, should support demand. At the same time, plans to cut back in inward migration are expected to tighten the labour market delivering higher wages growth. This should see the RBNZ begin to take the 'punchbowl' away, by lifting its policy rate from H2 2018. Tighter monetary policy should support a lift in the NZD to US75 cents by end 2018."*

Another of our confirmed speakers is the Auckland City Council's Design Office General Manager, Ludo Campbell-Reid.

He plans to make a presentation on new inner city living, statistics on urban villages and apartments, and the growth in this style of living.

Auckland Council is the largest Unitary Authority in Australasia with assets of over $62 billion and an operating budget of over $5 billion.

Ludo leads a team of 54 multi-disciplinary design professionals (urban design, architecture, landscape architecture, universal design and place activation) charged with spearheading Auckland's people-centred design-led urban transformation.

He's been heavily involved in projects such as the multi-award winning Wynyard Quarter Waterfront regeneration, the City Centre Streetscapes and Shared Spaces programme, the Auckland Art Gallery redevelopment and the award winning City Centre Master Plan.

With an estimated $16 billion worth of public and private activity occurring in downtown Auckland at present he has plenty to talk about.

There's a lot more to come, so do keep an eye on our website for the latest announcements, and if you have any questions feel free to email our Operations Manager Jenny Houdalakis at jenny@property.org.nz.

We hope to see you there

UPDATE ON LONDON'S HOTEL SECTOR

BEN GILL

Former PINZ Board member Ben Gill explores what is currently happening in London's vast hotel sector.

London's hotel sector has been booming in the last year, following a sluggish 2016, as the pound has weakened severely as a result of Brexit.

Booming sector

Using a well-known hotel booking website, a search for a weekend stay in Central London a week from now reveals 794 hotels with availability within a 10 mile radius of Westminster. Meanwhile, it has been estimated that the total room provision for London in 2017 was 152,000.

For the sake of comparison, the entire population of Tauranga could comfortably be accommodated – perhaps readers from there may wish to try and put some sort of group deal together? This is a bafflingly high number of rooms, and doesn't even include the 7,000 additional rooms that came onto the market last year. Surely this must represent some massive over-provision of space?

Well, as it turns out – no. London's hotel sector has been booming in the last year, following a sluggish 2016, as the pound has weakened severely as a result of Brexit. Growth in visitor numbers has been notably boosted by North American tourists who are making the most of the lowest exchange rate in 30 years. This confidence in visitor numbers may help to explain why newly announced hotel investments are still going ahead despite recent market turmoil and a mixed economic outlook. One saving grace is that Brexit is estimated to not have had much of an impact on tourism numbers.

In addition to its size, the range of offerings in London's broader accommodation sector is staggering. According to my research (well, quick Googling), I can get a bed in a 12-bed hostel room for $25 – at the other end of the market a suite at Claridge's will set you back a cool $5,500 a night. Or it would, assuming you'd booked six months ago. Clearly, there is the diversity of customer budgets there in order for this variety to exist, but it's not immediately obvious whether future opportunities lie in traditional hotels or with relatively new entrants to the market.

Traditional hotels

I have written before about how UK consumers love a chain, whether it is hair salons, supermarkets or restaurants. Hotels are no exception, and the UK's domestic market is dominated by a small number of brands with significant property holdings: Premier Inn (750), Travelodge (500) and Hilton (120). These brands are also strong in the London market, with over 100 properties between them.

However, while budget-conscious consumers are a growing market, most gains are being enjoyed by non-chain hotels in the 3-4 star market. These players saw occupancy growth of 2.6% in 2017 and growth of RevPAR (a hotel's average daily room rate multiplied by its occupancy rate) of 9%. While not expected to continue throughout 2018, this is a phenomenal level of growth.

At the other end of the spectrum, luxury hotels are seeing a much more subdued performance, with demand from the Middle East (traditionally a strong source of high-paying guests) easing off and reduced domestic demand as UK residents reduce their discretionary spending. These hotels often have significant fixed costs, meaning their ability to respond to changing demand is limited. Time will tell whether reputations built up over centuries (think Claridge's, Browns and the Goring) will be enough to continue to attract sufficient visitors.

I have written before about how UK consumers love a chain, whether it is hair salons, supermarkets or restaurants. Hotels are no exception.

New players – impact of Airbnb

The addition of 7,000 new hotel rooms in 2017 is one thing, but no innovation has had quite the impact on London's accommodation sector like Airbnb. While far from a UK-only phenomenon, this provider alone currently lists over 2,000 properties in London. Unlike traditional hotels, as recently quoted in *The Independent*, 'the world's largest accommodation provider, Airbnb, owns no property.'

While the impact of Airbnb on traditional rental properties continues to receive significant media attention both here and in New Zealand (e.g. Queenstown), its impact on the hotel sector – its direct competitors – appears much more subdued. This is remarkable, but is seemingly the result of excess demand that until now has failed to be supplied by the existing market.

They say that anecdote is not the plural of data, but I have to include here a conversation with a colleague held in the pub the other day (all in the name of research you understand). He had been struggling to let his rental flat in a fairly central location, as potential tenants were proving fickle and he was apparently asking above market price. Having decided to give Airbnb a go he is now fully booked for the next year – with an average weekly booking price of what he was planning to charge a month. He is now a firm convert, and chuckles that he never envisaged himself owning a hotel. Whether Airbnb can continue to grow at such a pace without encroaching on demand for traditional hotels remains to be seen.

Conclusion

London seems unlikely to run out of rooms any time soon. Whether future economic instability will have any impact on this sector, it is hard to tell, as is the future room ratio between traditional incumbents and new accommodation providers. It also seems to be a market with something for everyone, with rooms to match any budget.

However, I would encourage you if at all possible to undertake your own research into London's hotel market, if only to take advantage of the stunningly hot sunshine, uncrowded public transport and outgoing friendly populace

Ben Gill is a commercial real estate consultant in London and contributes here in a personal capacity only.
bengill25@hotmail.com

FUNDING AVAILABLE TO STRENGTHEN HERITAGE BUILDINGS

It's been more than a year since Heritage EQUIP launched in New Zealand. The $12 million support fund was created to help privately-owned heritage building owners with earthquake strengthening. Since then $3.1 million of funding has been allocated to projects from across the country and many of those are in our regional centres.

Getting funding to regional centres is especially important as seismic strengthening can be expensive. One of the struggles for regional areas is getting a strong tenant pre-commitment. Upgrading doesn't really stack up without it and unfortunately 'bankable' tenants can be hard to come by.

Heritage EQUIP and Manatū Taonga Ministry for Culture and Heritage would like to encourage more applications from regional New Zealand where many of the heritage buildings are a part of a town's identity and culture. The Ministry wants to help protect and support their ongoing viability.

'New Zealand has a proud heritage, but we are under no illusion that keeping our heritage intact and safe for future generations is easy or cheap – that's where Heritage EQUIP can help,' says Matthew Kidson, Chair of the Heritage EQUIP expert advisory panel.

'We've received funding applications for projects in many regions throughout New Zealand, but still have a lot more capacity to strengthen our heritage buildings right across the country. Heritage building owners face challenges with seismic work such as accessing the right technical advice and skilled building contractors, along with securing sufficient funding. Heritage EQUIP is designed to help address these issues,' he says.

The $3.1 million allocated to date is for projects such as the AE Kitchen building in Whanganui, Gallate's building in Napier and The Pumphouse in Christchurch. The last funding round saw heritage buildings in Hurunui, Oamaru and Petone receive support from the fund. The funding rounds are held three times a year and applications are assessed by a panel of experts including architects, structural engineers and heritage specialists.

The next funding round closes on 28 March 2018. For more information about how to apply go to: www.heritageequip.govt.nz. This also provides advice on planning and managing a seismic upgrade project, including finding the right people to help

Case study

Assessing the building's seismic strength – National Tobacco Company Building

In October 2016, a Napier-based structural engineering firm was engaged to undertake a detailed seismic assessment (DSA) of the National Tobacco Company building. The engineers found the building had been designed in a robust manner, with good structural redundancy, on solid foundations and floors. However, they found the strength of the building to be 15% of the New Building Standard (NBS), making it earthquake-prone.

The low NBS rating was due to weakness of the parapet above the art deco main pedestrian entrance. Strengthening the parapet was expected to bring the building's NBS up to 67%.

When the building owners were told the parapet was earthquake-prone, they decided to close the art deco foyer to the public until strengthening works were completed.

The National Tobacco Company building is a place of local, regional and national significance due to its association with the social and economic history of Napier. It is recognised in its listing as a Category 1 historic place on the New Zealand Heritage List. With the building under-utilised for some time, seismic strengthening work was completed along with a major refurbishment and alterations. The work accommodated new tenants, including a brewery and an urban winery. In recognition of the heritage value of the building, the project was awarded a grant from Heritage EQUIP for tying back the brick parapet to the roof.



Branch and National Office events

Northland
Branch Chair: Melody Richards
melody.richards@telferyoung.com

Auckland
Acting Branch Chair: Mike Sprague
michael@gctvaluers.co.nz

Waikato
Branch Chair: Glenda Whitehead
glenda.whitehead@tetumupaeroa.co.nz

Rotorua
Branch Chair: Kendall Russ
kendall.russ@telferyoung.com

Tauranga
Branch Chair: Paul Higson
paul.higson@telferyoung.com

Upcoming events:
- Visit to the new University of Waikato Campus – more information coming soon

Gisborne
Branch Chair: Che Whitaker
cwhitaker@lewiswright.co.nz

Taranaki
Branch Chair: Stephen Hodge
stephen@taranakipropertyvaluers.nz

Hawke's Bay
Branch Chair: George Macmillan
george@morice.co.nz

Wanganui
Branch Chair: Rob Boyd
rob@morganval.co.nz

Manawatu
Branch Chair: Bruce Lavender
brucel@blackmores.co.nz

Upcoming events:
- Manawatu District Council presentation on District Plan, Feilding Growth Plan to the 'Developer Forum' on 26 March at 4.15pm at Manawatu District Council offices

Wellington
Branch Chair: Hamish Merriman
hamish.merriman@darroch.co.nz



Join the Institute to attend events, seminars & our annual conference at member rates

Nelson

Branch Chair: Simon Charles

simon@dukeandcooke.co.nz

Canterbury Westland

Branch Chair: Simon Newberry

simon@fordbaker.co.nz

Upcoming events:

- 20 March, 4-6pm – Chairman's Drinks at the Art Gallery
- 26-27 October – Lincoln Mainland Seminar

South/Mid-Canterbury

Branch Chair: Alistair Wing

awing@xtra.co.nz

Central Otago

Branch Chair: Heather Beard

heather.beard@colliersotago.com

Upcoming events:

- Study group dates:
  - 19 March
  - 2 April
  - 7 May
  - 4 June
  - 2 July
  - 6 August
  - 3 September
  - 1 October

Otago

Branch Chair: Adam Binns

adam.binns@abcommercial.nz

Southland

Branch Chair: Hunter Milne

hunter@hmvaluation.co.nz

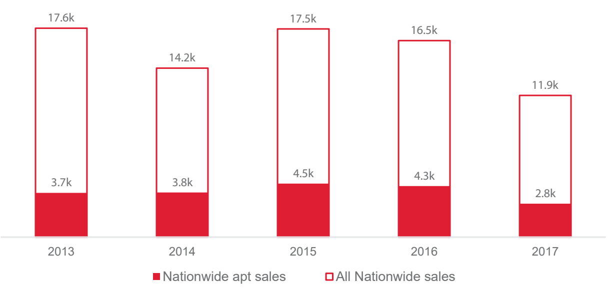
National Office

April events:

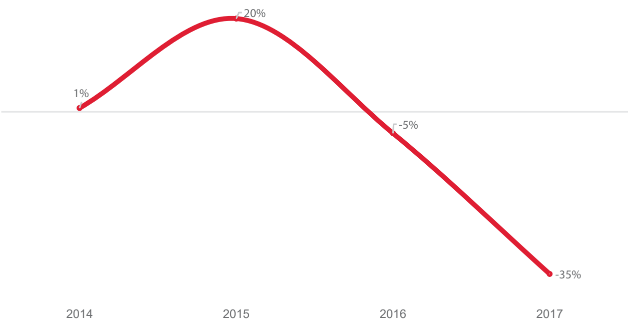
- April 4th Webinar: Health and Safety Update for Property Managers
- April 10th Bay of Plenty: Property Network Event
- April Seminar: Government Legislation Update
  - Wellington 11th
  - Auckland 12th
  - Christchurch 19th
  - Dunedin 20th

How do apartment sales compare to the rest of the residential market?

Nationwide apartment sales vs all sales
by year



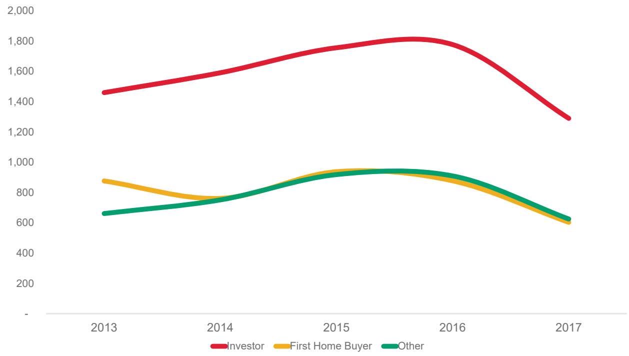
Change in Nationwide apartment sales
by year



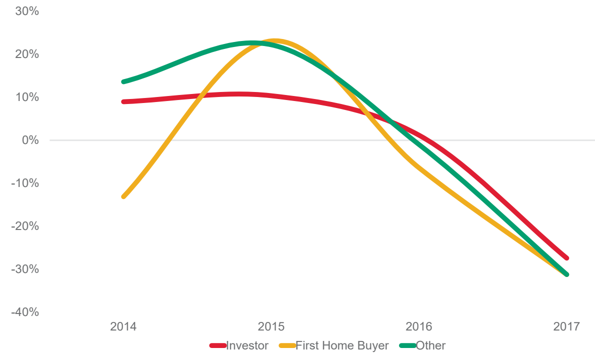
Apartment sales reached a high point in 2015 with 4, 500 apartments sold, this is 20% above the volume of apartments sold in 2014. Sales for apartments have been on the decline in the last 2 years. Down 35% in 2017 when compared to 2016.

Who is buying apartments?

Apartment mortgage registration types
nationwide by year



Change in mortgage registration types
nationwide by year



Apartments are most popular with investors, making up over 1,200 apartment mortgages in 2017. Mortgages for apartments are down across all buyer types in 2017 when compared to 2016.

www.valocity.nz