

NEW ZEALAND

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PROPERTY PROFESSIONAL

MAGAZINE

*2017 Property at the Peak
Conference special edition*



**CONFERENCE
AWARD
WINNERS**



*Auckland's
housing issues*



**MESSAGE
FROM LONDON**



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Conference a great success

Conference 2018 planning underway

The Property Institute annual conference has come and gone for another year. It gives me great pleasure to write this introduction for our *Property at The Peak* special magazine, which includes more photos than ever before, profiles, and a few of the presentations that generated strong feedback from you, our members.

A large amount of planning, time and energy goes into planning the conference, and there has been both positive and negative feedback, which we have taken on board. But, no sooner were the chairs stacked away than planning started for 2018. Next year we're looking to hold our conference in a larger North Island centre, at a facility that is able to provide us with a more practical main auditorium, break-out rooms, on-site catering, and suitable accommodation for up to 300 delegates.

Property at the Peak a great success

Despite some challenges, I still believe *Property at the Peak* was one of the best yet. Conferences are an important indicator pointing to the health of an organisation, and if the energy and enthusiasm on display in Queenstown is anything to go by, then we are in great shape.

This year's Supreme Award winner, Leonie Freeman, is profiled later in this magazine. A truly remarkable woman who has carved out a stunning career in property – and a reputation to match it. A deserving winner and worthy of respect and recognition.

I also take a close interest in the people who enter our Young Property Professional awards category. These people are the future of our industry, and if this year's entrants are anything to go by, we are in

good hands. Thank you to our winner Luke Van Den Broek for his kind words about the PINZ Leadership Programme.

That programme is another successful initiative which we are kicking off again this year, with a new intake of recruits who are keen to make a contribution to industry governance. We thank them for volunteering their time, and invite you to see who they are later in this magazine.

Congratulations to all those who received awards at this year's conference and thank you to everyone who entered. In our hectic daily schedules, it's not always easy to find time to put together an entry – especially when the quality of entries improves year after year. We appreciate your efforts and encourage you to try again in 2018.

Of course, we also welcomed new PINZ President Patrick O'Reilly and farewelled former President Greg Ball, who has been a huge supporter during a period of change at the Institute. Patrick outlines his priorities as President in this magazine.

And lastly I want to thank our sponsors. Without their ongoing support our conferences could not be as successful as they are. Every dollar that they contribute is one less dollar we have to raise through membership and I encourage you to support them when you can.

Final word

As I write this, we are in the final countdown to the general election on September 22. Being a self-confessed political junkie, I could not sign off without making a brief reference to the pending vote. As with all MMP elections, what sort of government we end up with will very much depend on the maths at the end of the day.

I'm not brave enough to make that call, but what I can confidently predict is that no matter who is in power, property

will continue to be an important talking point. There'll be more government-funded houses no matter who's in office, there'll be more infrastructure, and a strong likelihood of changing regulations.

However, we're particularly pleased to see that the government has closed the door on the introduction of DTIs and is recommending that the Reserve Bank outline its plan for the removal of LVRs. As members will know, this follows almost two years of advocacy, by the Institute, on these topics – including taking a strong media position, meeting with Ministers and opposition MPs, and making submissions on these matters. While REINZ and a handful of real estate companies have shown interest in these matters over the past few days, it's clear that the long hard slog by the Institute has been a contributing factor in this very welcome turn. Making sure our members and our industry get good representation at the highest levels is a top priority for the Property Institute, and we will continue to speak out on issues that are important to us and you, no matter who the government is 🙏



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SPRING 2017

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PINZ PRESIDENT PATRICK O'REILLY

Taking up the role

It is with great enthusiasm that I pen this note to PINZ members. It is an honour to take up the role of President for the Property Institute.

Over my 30-year working career I have been active within the Institute for over 10 years. The need for an organisation that represents property professionals is as relevant today as it has been in the past. It is my focus to see that the standing of our profession continues to be elevated and compared to the likes of solicitors and accountants.

I am pleased to advise that the quality of the PINZ Board that represents members is high. We have strong representation by industry sector, region, gender and age. Most pleasing is the representation from past alumni from the Young Leaders programme. Katie Beveridge, Luke Van Den Broek and Susie Penrose provide refreshing perspectives on issues and it is positive to see such focused professionals coming through our industry.

I would like to acknowledge the contribution of the outgoing President, Greg Ball. His passion and experience have been invaluable to the organisation. I am pleased to advise that Greg continues as the immediate Past President on the Board. I am sure that we will continue to draw on his considerable commercial and business expertise as we drive the Institute forward.

It is important that the Board represents its members and I will be making contact with the Branch Chairs over the coming weeks. I have a broad range of contacts within the property industry and our membership and I look forward to meeting people who I don't know within the Institute. I am available by email at president@property.org.nz if you have any issues or feedback that you wish to provide.

The Property Institute is well led by the enthusiastic and energetic Ashley Church. Ashley has done a great job in increasing the profile of the Property Institute and I look forward to working more closely with him in my new role.

New Property Institute President Patrick O'Reilly (left) and Institute of Valuers Chair Roger Gordon at the 2017 conference.



It is my focus to see that the standing of our profession continues to be elevated and compared to the likes of solicitors and accountants.

Conference

It was a great conference in Queenstown in June. The status of the Institute was recognised with having the Prime Minister scheduled to open the conference. It was a shame that the weather impacted on logistics, including flights being redirected and cancelled. This meant that the Prime Minister beamed in from the Beehive rather than being present in person.

Well done to Jenny and the team for such a well-organised event. Members are currently being surveyed on their preferred location for the 2018 PINZ conference. Please have your say. At this stage, from the feedback received to date the conference will be in the North Island.

Young Leaders programme

As noted above, the Young Leaders programme has been an excellent pipeline for our younger members to become actively involved in the Institute. The skills and background of the participants is impressive. The number of applicants for the programme has increased substantially again this year. A new cohort will be inducted this year and I look forward to their involvement in the various committees. As has been currently reflected these people are the leaders for the Institute in the years to come.

USA study tour

A reflection of the Institute's maturity is expanding services. The overseas property study tour being undertaken in September this year is such an example. I was lucky enough to be on the China study tour some five years ago and I highly recommend them. The benefit of meeting new like-minded people and expanding your professional network, while seeing some of the best property in the world, is a highlight. I have signed up again for this year's trip. I am particularly excited to be going to New York. I was last there in 2007 to do the New York marathon and am looking forward to walking the streets rather than running them! 🏃



2017 Annual PINZ Conference

The 2017 Property Institute Annual Conference was held in Queenstown on 29-30 June. PINZ Chief Executive Ashley Church reflects on what was achieved.

A great conference

'Since I started at the Institute we've been working towards making our conferences a showcase event for an increasingly broad range of property professionals. The 2017 conference ticked all the boxes,' says Mr Church.

Property at the Peak at the refurbished Rydges Hotel in Queenstown attracted well over 200 delegates from throughout New Zealand, which is a good result for a location that's often hard to get to and expensive to stay in.

'It was the preferred location identified by members in our annual needs assessment survey. We're already looking ahead to the 2018 event, which will be in a North Island venue,' he says.

'The challenge of travel to Queenstown was brought home on the first morning of the conference when fog caused major hassles for a number of our speakers, including the Prime Minister, who was set down to open *Property at the Peak*.

'That was a bit disappointing, but PINZ and the Prime Minister's office worked

together to get a video message for delegates which was played at the end of the first day. In that presentation, Bill English slipped in an early reference about the Housing Infrastructure fund, which was formally launched a couple of weeks later.'

You can watch that video on our YouTube channel or Facebook page.

'I think it is a good sign that PINZ is now able to command attention at the very top levels of government. I hope we'll be able to do more of this in the future,' says Mr Church.

'Since I started at the Institute we've been working towards making our conferences a showcase event for an increasingly broad range of property professionals. The 2017 conference ticked all the boxes.'



Session topics

The first morning's sessions included Mahon China Investment Management General Manager, David Mahon. He gave a very good insight into Chinese investment in New Zealand and New Zealand investment in China. David concluded that factors such as property, social networking, the capitalist economy, weak Chinese laws, decision-makers' hierarchy and the importance of business relationships will spur changes to the political framework over the next five

years. He also believes that New Zealand needs to be ahead of the curve to cement its desirable investment position with China.

Read more from David Mahon later in this magazine.

Other speakers over the two days included the BNZ's Tony Alexander, Mark Finlayson of Envivo talking about cutting edge 3D modelling of buildings, and Auckland Council's John Duguid giving an update on the Unitary Plan. Topics included the regular ethics and

standards presentations, as well as workshops on government relations and an inspirational session with double amputee and mountaineer, Mark Inglis.

See articles from presenters Annabelle Numaguchi and Mark Finlayson later in this magazine.

'We've had good feedback about the quality and quantity of the speakers. The formal side of the conference went very well, and despite the early travel hiccups it went incredibly smoothly,' Mr Church says.



'I think it is a good sign that PINZ is now able to command attention at the very top levels of government. I hope we'll be able to do more of this in the future.'

Black-tie awards dinner

Of course no PINZ conference is complete without the black-tie awards dinner held on the Thursday night at the Millennium Hotel. This event is growing each year and 2017 was no exception.

'The standard of entries this year was better than ever, and that's reflected in the calibre of talent receiving awards on the night. As PINZ Chief Executive, I firmly believe in celebrating excellence in our industry and these awards are one way of doing that. Not many of us get recognition for the hard work we do in our daily routines and I'd like to think the Property Industry Awards go some way to achieving that,' Mr Church says.

You can read more about the winners and see more photos from the event later in this magazine, but included in the list of winners was Supreme Award recipient Leonie Freeman who was also recently made a Life Member of the Institute. Another winner on the night, QV's Luke Van Den Broek, gave a stirring speech about how much the Institute had helped him in his career as he received the Valocity Young Professional of the Year award.

PINZ announcements

Alongside the more formal parts of the conference, the Property Institute also made a number of announcements. It launched its long-awaited member's website at www.propertyinstitute.nz, which offers a range of new features and is flexible enough that it should serve the Institute well into the future.

PINZ has also expanded its well-regarded Property Industry Quality Assurance scheme (PIQA). That programme has now been opened up to new members after a successful trial among former

members of the old Quality Assurance Accreditation Scheme (QAAS).

And PINZ has also launched a revamped JOBMail service, now called PropertyJobs, which is available at www.propertyjobs.co.nz. It has a much broader audience and potential for significant growth. You can check out the advertisement for property jobs later in this magazine.

A number of other new initiatives were also discussed at the conference and members will hear more about them in the coming months.

Retiring and incoming PINZ Presidents

PINZ also said farewell to its President Greg Ball. Greg's been a fantastic leader over a period of significant change within the industry and at the Institute.

The newly-elected President is Patrick O'Reilly. His full profile appeared in the Summer edition of *Property Professional*. Earlier in this magazine he provides a sneak preview of what he hopes to achieve in his new role as PINZ President.

Sponsorship appreciated

Of course, the Property Institute could not run such quality conferences without the support of its sponsors. Both in terms of the awards and the event itself, Mr Church says they've come to the party a number of times and the Institute appreciates their ongoing support.

'JLT as our principal sponsor provide huge support, not only for events but they're also offering a number of benefits and discounts that are exclusive to PINZ members. Valocity, Simpson Grierson, QuickMap, Headway, Valbiz and Core Logic are all important partners for us and we can't thank them enough,' he says 🙏

2017 PROPERTY INSTITUTE PROPERTY INDUSTRY AWARDS

The Property Institute Property Industry Awards are intended to be the pinnacle of recognition in the New Zealand property industry – and while that's quite a claim, it is consistent with the steps we are taking to reposition the Institute as a strong central body devoted to the promotion of ethics, innovation, professionalism and, of course, excellence in the industry.

Our judging panel was chaired by outgoing PINZ Chairman Greg Ball – and also consisted of Roger Gordon, Patrick O'Reilly, Peter Bollman, Brent McGregor, Adrienne Mikkelsen – as well as PINZ Chief Executive Ashley Church.

Winners of the Community Awards are chosen by the Council of the community in question – and the choice of winner is determined by criteria set by those communities. In general, however, the awards recognise excellence, achievement and leadership, and are awarded to the person who, in the opinion of the relevant council, best exemplifies these qualities amongst their members.





QUICKMAP
PROPERTY ADVISOR OF THE YEAR

PWC Real Estate Partner
**ROBERT
CAMERON**

Robert has spent 29 years at the coal face, and he is only now in his third ever job. He provides specialist property and project advisory services to a wide range of corporate, institutional and government clients. He draws on a background in valuation and property consulting, which provides a strong analytical approach to complement many years of practical experience and the ability to clearly articulate strategy.

Previously Robert was recognised widely in the market for his independent advice, project leadership and experience in a broad range of property negotiations. He has worked as an advisor to a range of organisations, including a number of New Zealand universities, the Crown's Property Management Centre of Expertise, various government agencies, Panuku Development Auckland, and Willis Bond and Company.

VALOCITY PROPERTY MANAGER OF THE YEAR

Argosy Property Ltd Operation
Contracts Manager

IAN BROWN

Ian has had a career in property manager, entering the property profession in 1974 with NZ Rail in a role that started as a property trainee and then graduating to become Northern Regional Property Manager. During this period he qualified as a valuer, completing the New Institute of Valuers' (NZIV) professional exams. He was a Property Development Executive for Foodstuffs (Auckland) from 1987 until 1999 and Principal Property Consultant for Opus International in Palmerston North.

In 2013, our winner took on his current role as Operation Contracts Manager for Argosy Property Ltd. Throughout his career he has been a strong supporter of the Property Institute, being a committee member for over 20 years, including four years as Auckland Branch Chairman. He is described in his nomination as a proud property professional and a credit to the industry.



JOHN M HARCOURT AWARD

JOHN DARROCH



This award is only made in circumstances where a member is considered worthy and it is not awarded every year – only in those years where an outstanding candidate merits the recognition. Only a candidate considered by the Council of the NZIV to be or have been a pre-eminent valuer may be awarded the John M Harcourt Memorial Award.

John has had a long and distinguished record of service with NZIV and PINZ, which continues to this day. He has been heavily involved in the respective Institutes at local branch, national and international levels.

His service began in the early 1990s when he sat on the Auckland Branch committee of NZIV, subsequently becoming Chair. In 2001, he became the foundation Chair of the Auckland Branch of PINZ. He has been a Director of PINZ and a Chair of its National Education Committee, with extensive involvement and commitment to valuer education and professional standards. John holds a Bachelor of Commerce (VFM) and a Diploma in Valuation in Property Management from Lincoln University. He is a Fellow of both NZIV and PINZ.

He has practised mainly in the commercial and industrial market in Auckland. Due to his wide experience, high level of integrity and well-regarded reputation he has been regularly sought out and appointed as an umpire/arbitrator on many occasions. This award recognises his effort, achievements and the substantial contribution he has made to the profession.



SIMPSON GRIERSON
PROPERTY INNOVATION AWARD

COLLIERS INTERNATIONAL CORPORATE SOLUTIONS TEAM

To win this award, the winner needs to have demonstrated outstanding examples of initiative and innovation. They must also display high levels of leadership and demonstrate how they have made a contribution to their professional community. Property is an information-intensive industry, and the key to good decision-making is to have all of the information at your fingertips when making critical decisions.

The Colliers International Corporate Solutions Team recognise this and have developed the Colliers 360 Portfolio Visualisation Software, a cloud-based portfolio management system providing extensive analysis tools which is built on

the concept of 'portfolio visualisation'. This concept ensures that all information on a property is pulled together into a cohesive picture and presented on a visual dashboard, which presents information in one place and is accessible from any device, and anywhere with an internet connection.

The system is easy to manipulate, easy to access and doesn't require extensive training to use.

Clients who have used this tool rate it highly, as it is able to 'slice and dice' portfolio information to give the user a clear perspective on a site, a region, a division or across a portfolio. It's also fully customisable, with bespoke solutions for individual clients.

JLT PROPERTY BUSINESS OF THE YEAR AWARD

COLLIERS INTERNATIONAL RURAL AND AGRIBUSINESS VALUATION

To win this award, the winner needs to demonstrate exceptional levels of success and high levels of innovation. They must also demonstrate how they developed sustainable positive and cultural change. Finally, they must have shown a desire to build client trust and confidence.

Colliers International Rural and Agribusiness Valuation had its roots in 1996, building an enviable reputation as a solid, well-regarded firm with an impressive portfolio of clients. It has been through a period of change over the past couple of years, but has developed a strong culture of excellence with a positive and



innovative approach. The business was rebranded in 2015, allowing it to substantially expand its network capability by association with a strong international brand. This has enabled them to serve both overseas corporate entities and small local businesses in the markets in which they operate.

They've also developed their own in-house database to service their needs, and their commitment to our industry is underlined by the scholarship they fund at Lincoln University to encourage students to take up a career in valuation.



FELLOWSHIPS & PREMIUM AWARDS

FELLOWSHIP WITH THE PROPERTY INSTITUTE,
NEW ZEALAND INSTITUTE OF VALUERS, OR BOTH:

**DAVID BAXTER, KEITH MCKEOWN,
SIMON NEWBERRY, WARWICK
REID AND NIGEL KENNY**

HAS BEEN MADE A PINZ LIFE MEMBER
IN RECOGNITION OF HER OUTSTANDING
CONTRIBUTION TO THE PROPERTY INDUSTRY:

LEONIE FREEMAN

HAS BEEN MADE AN NZIV LIFE MEMBER:

KEN PARKER



VALOCITY YOUNG PROPERTY PROFESSIONAL AWARD

LUKE VAN DEN BROEK

This award recognises the future leaders of the industry and finalists must demonstrate high levels of initiative combined with strong leadership abilities. The judges also look for evidence of innovation and the ongoing contribution made by finalists to their professional communities.

Luke graduated with a Bachelor of Business Studies in Valuation & Property from Massey University in 2008. He started his career as a graduate valuer for QV in Hamilton and worked his way up to the position of Account Manager. He is now a

registered valuer and South Island manager for rating valuations at Quotable Value in Canterbury. He became PINZ Young Leader in 2013 and was also selected for QV's Young Leaders Programme.

He was elected as the Southern Representative to the Property Institute Board in 2016. Luke is currently working towards his Masters of Business Administration degree and has achieved MPINZ and ANZIV status. He's also a member of the New Zealand Institute of Primary Industry Management.

Two other entrants received special mention in relation to the Valocity Young Property Professional Award:

Susie Penrose

Susie graduated with a Bachelor of Business Studies in Valuation and Property Management from Massey University in 2009. She began her career at TelferYoung in the same year and became a registered valuer in 2014. She is now an Associate Director at TelferYoung in Hawke's Bay. In 2013, she became a member of the PINZ Young Leaders Programme, in 2015 she became a Young Representative on the NZIV Council, and earlier this year the Young Representative on the Property Institute Board – a position she has now consolidated by being elected as the Central Region representative on that Board. Susie is mainly involved in the commercial and industrial sector where she specialises in accommodation and aged care facilities. She has undertaken a wide range of valuations for market, finance, asset and insurance purposes, and assisted in arbitrations.

Elizabeth Newman

After graduating from Lincoln in 2009 Elizabeth joined Knight Frank in Auckland and, following a short stint in agency support, she moved into the Valuations Team and gained registration in 2013. She carries out a wide variety of valuation work, including residential, retail and industrial. Elizabeth is a mentor to younger graduates and committed to becoming more involved within the professional community, particularly PINZ and NZIV. She's been involved in arbitration work, received an internal Frank Knight Professional Development Recognition Award and her twitter handle is #BorntoMeasure. She was also a member of the team that organised the very successful Property Industry Ball in 2016.



JLT SUPREME PROPERTY INDUSTRY AWARD

LEONIE FREEMAN

This highly-regarded award recognises the pinnacle of achievement in the property industry. Recipients must demonstrate exceptional leadership skills, vision, a track record of consistent achievement, and have made a continued impact on the property sector and the economy. Leonie is regarded as one of the industry's earliest disruptors. She is a leader who commands an unusual breadth of insight into the New Zealand property sector, having held top positions on both sides of the private and public divide.

She holds a Masters of Commerce majoring in Valuation and Property Management from Lincoln University, graduating in 1988. She is a registered valuer, property manager and consultant and became a Fellow of the Property Institute in 2004.

In 1996, Leonie created the concept of, and launched, RealENZ.co.nz – which is known today as realestate.co.nz. She then purchased a small, run-down residential property management business, which she totally transformed into

an 'interactive' business before selling it 10 years ago.

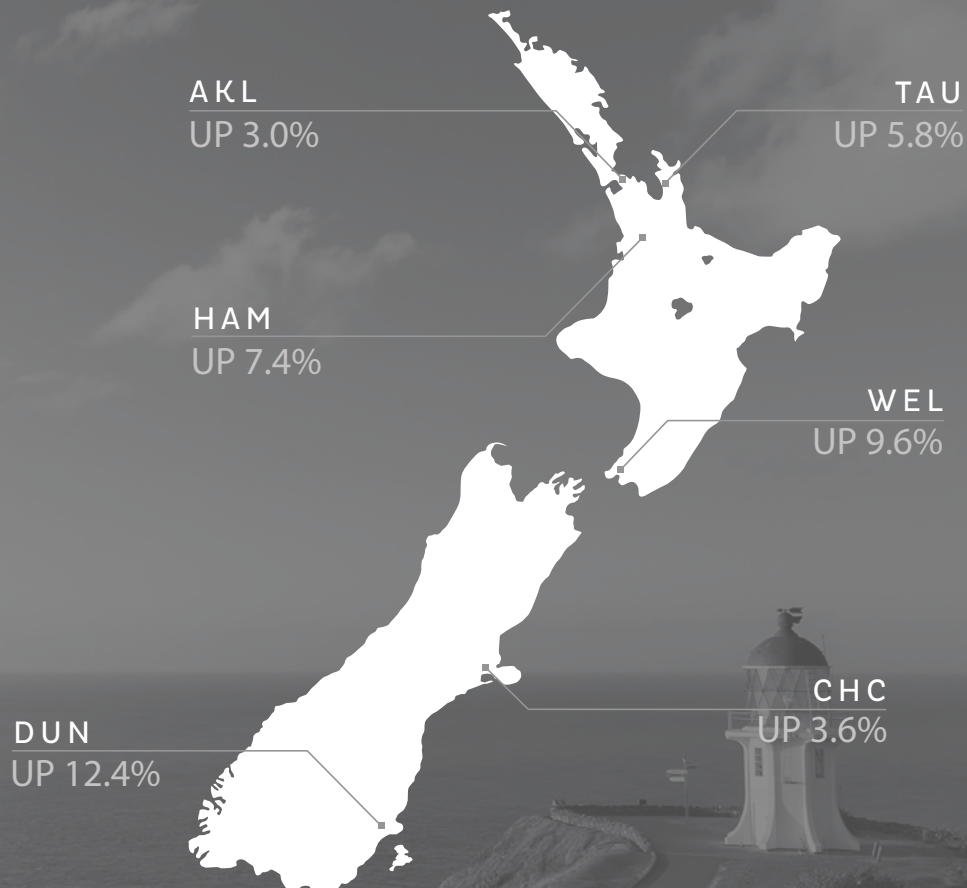
In 2011, she was appointed to the board of the listed company, Goodman Property Trust, and in more recent years has focused on making a contribution in the public sector. She was the Strategic Property Advisor in the set up of the new Auckland Council and acted as Project Director for a complex Auckland Council development project. This was followed by an 18-month stint as the General Manager of Development for Housing New Zealand, which broadened her social housing experience. At the request of the Minister of Finance she led a strategic review of the Social Housing Programme at the end of 2015.

In October 2016, she launched thehomepage.nz, a philanthropic and independent initiative with the sole purpose of solving Auckland's housing crisis. She is also a member of Global Women, a collaboration of New Zealand's most influential leaders, and a Chartered Member of the Institute of Directors.

Nationwide property snapshot

National median sales price movement (YOY)

*Year to July 2017



National median sales price

\$495K

Proud to partner with PINZ to provide comprehensive property data and insights to members.



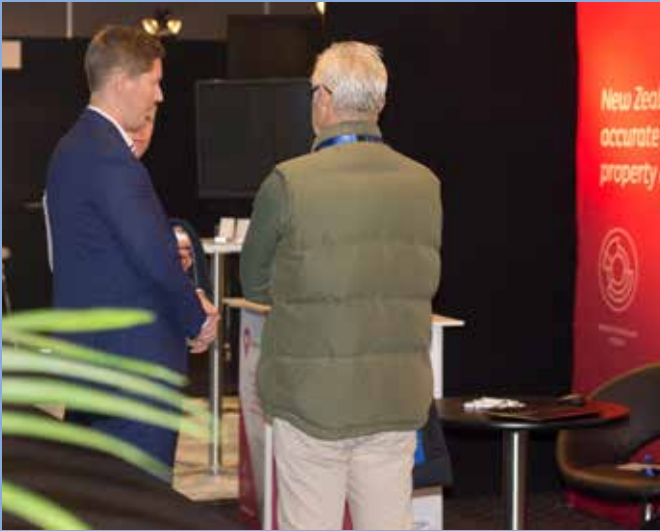
Valocity

/ the power of connecting

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2017 Conference Photos





NEW CROP

of young leaders



Tim Brown

Current Position: 2015 – Present, Senior Analyst, CBRE (Auckland)

'I am looking to learn governance and management skills from the industry's best, and this initiative will help me to develop these skills. I'm very much looking forward to the new and unique challenges that this programme will bring.'



Katherine Marshall

Current Position: January 2017 – Present, Commercial Property Manager, Progressive Enterprises Ltd (Auckland)

'I am excited to further enhance my knowledge and leadership skills within the industry. Property has always been a passion for me and I have gained five years' experience working as a commercial property manager across both the property investment and retail sectors.'



Genevieve Grant

Current Position: May 2016 – Present, Registered Valuer, Ford Baker (Christchurch)

'I enjoy facing new challenges and experiences, representing young people, bringing new ideas and vision to the table, meeting new people, and working as a team to achieve common goals.' Genevieve has served previously on Wellington PINZ and NZIV Committees



Anna Paget

Current Position: March 2015 – Present, Graduate Valuer, Telfer Young (Hawke's Bay)

Anna has been an integral part of the Hawke's Bay PINZ Branch Committee since taking the role of Secretary in 2015. 'I got involved in valuation at University by accident, and ever since have found a passion for rural valuation and the valuation industry in general.' Anna is a previous chair of the Young Valuers' Focus Group at Telfer Young.

The Property Institute's been blown away by the interest in this year's Leadership Programme. Perhaps the endorsement from Property Industry Award Winner Luke Van Den Broek was a factor, but this year we received an unprecedented number of applications for a limited number of positions.

PINZ introduced this programme to encourage younger professionals to be more involved in governance, offering them the opportunity to sit on various PINZ committees, and gain first-hand leadership experience from some of our industry's best people.

It's fantastic to see so many younger members want to make a contribution to our organisation and we thank them in advance for putting their names forward. Here's a brief introduction to each of our successful candidates:



Boris Babic

Current Position: October 2016 – Present, Graduate Commercial Property Valuer, Knight Frank Ltd (Auckland)

'I have a strong passion for bringing people together with a common goal and helping see it through to the end. I want to contribute to this industry and be involved to make a positive and lasting difference.'



Damon Pere

Current Position: 2015 – Present, Valuer, Seagar & Partners, (South Auckland)

'I'm enthusiastic to contribute positively to the industry as a whole, ranging from the Institute to becoming involved with property issues with my iwi and beyond. I would cherish the opportunity to be involved in the Young Leaders' Programme and further my knowledge of the property industry.'



Olivia Roberts

Current Position: June 2016 – Present, Graduate Valuer, Colliers International (Wellington)

Member of the PINZ Wellington Branch Committee since January 2016. 'I see this programme as an opportunity to further my professional development and contribute to growing the industry, by encouraging more students particularly women, to study property.'

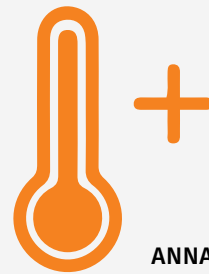


Courtney Paterson

Current Position: 2012 – Present, Registered Valuer, Telfer Young (Christchurch)

'I want to be involved in the governance of the industry now and in the future. I'm looking forward to learning from our industry's experienced leaders.' Courtney is an active member of the local PINZ Branch and received Telfer Young's Young Valuer of the Year Award in 2014.

HEATING UP New Zealand homes



ANNABELLE NUMAGUCHI

This article is an abridged version of the presentation Annabelle Numaguchi gave to the Property at the Peak conference in Queenstown.

Coming from a high desert plateau in Utah in the United States I very much noticed the cold housing when we moved to Queenstown five winters ago. Since then we have rented and tried out different homes and locations there. I love playing in the cold outside as long as I can come inside and warm up. Imagine my surprise in discovering this was neither a common expectation, nor a possibility, in most Kiwi homes.

I was fortunate to find a construction company specialising in energy-efficient homes and I not only built one, I now work for them. Wanting a warmer, healthier home is a fair expectation; expecting every consumer to become an expert in building science to get one is neither fair nor realistic. Most homes in New Zealand are still being built to the minimum code, which essentially translates into the worst home we are legally allowed to build. A minimum code is just that; a minimum, not a target.

We are in a period of the greatest activity ever in residential construction. Nick Smith, Minister for Building and Housing, states, 'The past six years has seen the longest and strongest growth in housing investment ever, from 15,000 new homes in 2012 to over 30,000 currently.' However, the emphasis remains on quantity over quality. This is true in terms of a pressing need to deliver more affordable housing and because of the belief that larger, four-plus bedrooms will command a higher price in the market, regardless of performance.

'Experts agree that leaky homes are still being built in New Zealand, and the health costs from them could reach into the billions – yet very little study has been done into the looming health crisis,' according to Tom Hunt in a report for the *Sunday Star Times* (18 June 2017). So what's the alternative to building to minimum code?

Passive House is a stringent certification and represents international best practice. While achieving this outcome would be ideal, targeting between minimum code and Passive House is more realistic. The principles behind Passive House can be applied to all typologies, from apartment living to single family dwellings. The five key aspects are: increased and improved insulation; airtightness; better-performing windows and doors (minimises thermal bridging); ventilation; and orientation.

The residential construction sector needs to focus on outcomes and collaborate to achieve these cost and health benefits. There is no one method for building, but rather there can (and needs) to be flexibility by targeting between the minimum code/3604 and Passive House principles. We need to recognise the challenges to building above minimum code. The three key reasons why 3604 remains the standard are costs, expectations and education.

If professionals associated with residential property collaborate to tackle these challenges in reverse order, each solution will help solve the preceding issue. For example, if people are well informed and can rely on good research, particularly through organisations such as BRANZ, their expectations will improve. The demand for better-performing materials and methods will make it profitable to increase the supply. In turn, the price of these higher-performing materials will come down.

A good example of this principle is the introduction of double-glazing in New Zealand, where a product formerly considered a luxury is now both affordable and ubiquitous.

The property market needs a succinct method to rate a home's performance, which will increase expectations and returns for thermally-efficient homes. The New Zealand Green Building Council's Homestar tool satisfies this need. This 10-star rating immediately translates the performance and sustainability of a home, imbuing it with greater value on the market.

The benefits of an independent rating include premium returns on the market, better health outcomes for the occupants, and an independent buyer assurance. It is imperative that all entities influencing residential building from national and local government, to real estate agents and valuers, deliver the same message to the consumer – let's expect more and build better 🏡



Annabelle Numaguchi is an NZGBC Homestar™ Practitioner and Sales/Marketing Consultant for Evolution, a division of Rilean Construction.
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Getting a foothold **IN CHINA**

DAVID MAHON

David Mahon was a presenter at the recent Property at the Peak conference in Queenstown.

There is no plausible evidence behind Donald Trump's accusations that China has manipulated its currency for trade advantage in recent years. His claims that China is responsible for the reduction of American industries and unemployment are equally spurious. Since the 1960s, as a natural result of globalisation, the US has been relocating industries to Japan, Korea, Taiwan, Mexico and Latin America. Many of the companies which moved low-cost production to China in the 1990s have since moved to other industrialising nations such as Mexico, Vietnam and Bangladesh.

In 2015, China's exports to the US were largely comprised of electronics and industrial machinery, totalling USD140 billion. China also sold USD40 billion of relatively cheaper products, such as footwear and sports goods, last year. The industries that Donald Trump has pledged to return to America are scattered across the developing world and cannot be brought home. Should he convince or coerce American companies to produce in the US, it would be likely to result in the employment of more robots than American workers.

Despite some speculation that the new American president could initiate a trade war with China, it would be difficult for him to do so without congressional approval and complex negotiations with the World Trade Organization (WTO). Most in America's pro-free trade, Republican-controlled congress would also resist such initiatives, as would US multi-national companies with their powerful Washington lobbyists.

There will, nevertheless, be more disputes and the erection of non-tariff barriers as national leaders of industrialised nations struggle to find solutions, wavering

between sustaining free markets and bending to the pressure to be more economically nationalist. China has become more protectionist in recent years, but its dependence on imports of raw materials, technology, and safe agricultural and food products will restrain it from going too far.

Anti-globalisation forces are gathering momentum in developed economies as expressed by Brexit, the rise of nationalist parties in Europe, the support for Bernie Sanders in the Democratic primaries and the election of Donald Trump. The West is in the throes of a still diffuse, but broad, grassroots revolution of disillusionment and discontent contained by democracy and law. The lines between traditional left- and right-wing parties are blurring, as those in political establishments and elites, perceived to have failed in protecting common wealth and preventing monopoly interests, struggle to respond.

It is not that democracy is failing. Instead, many of those elected to protect and administer it have failed to consider the needs and rights of the majority over minority interests of large corporations in their blind hunt for higher profits, lower costs and increased global market share.

China may have no intention of embracing democratic institutions, but it is not removed from the popular discontent manifesting in the West. The Chinese Communist Party remains in power because of a form of populism as broad and varied as any in the West. China adopted capitalist principles in the mid-1990s and now depends on a free market economy, but lacks some of the independent institutions and checks and balances that are common features of more established free market systems. China is watching its former

economic role models, the US and Europe, and having lost faith in aspects of the Western free market model after the Great Recession is alarmed that Western political processes have become so dysfunctional.

The one factor that could be more destabilising than the US showing more demonstrative support for Taiwan, challenging the One China policy, or trying to pressure China on trade would be a significant military withdrawal from North Asia. This would be a catalyst for Japan to militarise further and for Korea and Japan to consider nuclear armament. Although the potential for heightened regional tensions is dangerous on many levels, a measure of chaos and the disruption of the status quo may force all parties to deal more frankly with the long-standing underlying tensions and misperceptions. But we may have to wait longer than four years to see this come to pass ☹



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3D LASER SCANNING

MARK FINLAYSON

Mark Finlayson from Envivo Engineering spoke at the conference about 3D laser scanning.

Laser scanning adds an exciting new dimension in project visualisation, planning and development. Before any design or engineering work can commence it is important to know exactly what is on-site. A 3D laser scanning Asbuilt is ideal because the rich information captures a snapshot of everything that's there.

The first step in laser scanning is to create a point cloud, providing a record of structural information and services, which can then be modelled in Revit software. Existing buildings and peripheral structures can be compared to a proposed designed model or drawings and interrogated by everyone involved – the architects, engineers, project managers, constructors and clients. Decisions can be made on the best way to redevelop a site, renovate a property, or whether to demolish and start again from scratch.

The major benefit from laser scanning is the accuracy. Compared to traditional surveying where a theodolite may capture 50 shots, the laser scanner is capturing

millions, which makes it ideal for anyone who wants to stocktake stockpiles or any irregular surface. We have also used laser scanning for numerous industrial plants, power sub-stations and highly complex sites for 3D documentation and in preparation of plans for redevelopment.

Laser scanning is a fantastic tool that can quickly and accurately survey a large area. The photogrammetry looks incredibly real, enabling everyone to see the site and drill into the field data they are interested in on their devices. The point cloud output enables a high level of coordination between the owners, architects and construction professionals. There are also benefits in cost savings compared to traditional survey methods. Another advantage is the major field safety improvements, not only for our teams on-site but also for future workers who can utilise the Revit models, realistic visualisations and 3D walk-throughs available from the point clouds without being on-site.

The benefits of laser scanning can therefore be summarised as: richly detailed information will help you to reduce risk and control costs on your project; communication – a full colour point cloud allows measurement, notation

and communication with clients, project managers, design agents, constructors and engineers; a permanent 3D record that facility managers and site engineers can interrogate for ongoing operations and maintenance; an accurate 3D digital model in part or whole of the scanned area to your specifications; and a strong and safe basis for any building information management (BIM) system. The opportunities are immense for the construction industry in the future 🚀



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THE MESS WE'RE IN

Auckland's housing bubble and the future

JOHN TOOKEY

AUT Professor John Tookey discusses the key issues about the future of house construction to address the Auckland housing crisis. The article is an abridged version of his recent report – 'The mess we are in' – available from AUT's Policy Observatory.



Multi unit dwellings – there are substantial upfront costs needed for scaffolding

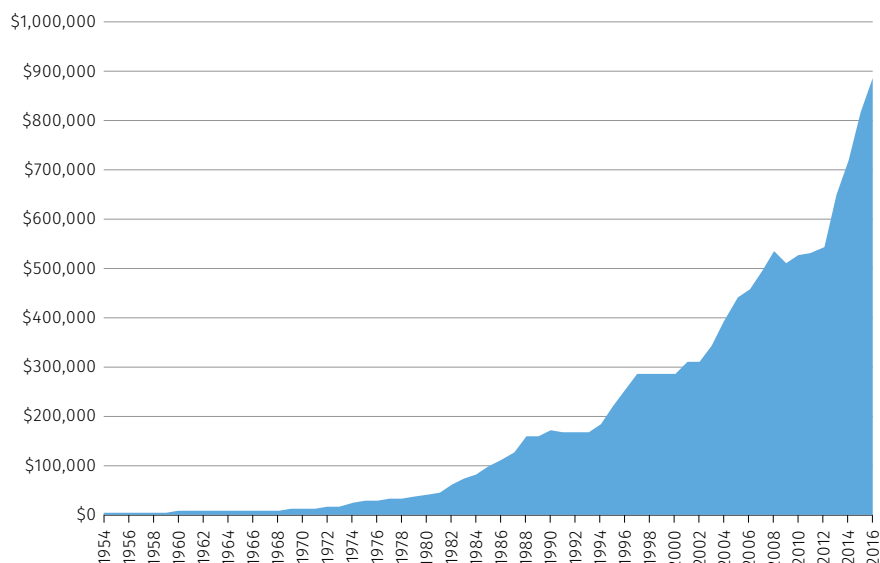
Where to next for Auckland housing?

There is an apocryphal story that reminds me of the current situation in the Auckland housing market. Apparently, a tourist got lost in the back country of Ireland. The tourist decides to stop for directions from a local, asking 'What is the best way to get to Dublin?' The local replies, 'Well you're best not starting from here.'

Over the last two decades or more we have created a huge problem to address. A toxic combination of investor greed, industry inertia, council impotence and governmental ideology have conspired to create an economic and social time bomb of inflated house prices and unaffordable living in New Zealand's largest city. So as we approach the election of 2017, where to next for the Auckland housing market?



Figure 1: Barfoot & Thompson annual average sale price, financial year, excludes commercial and Northland, includes rural



Source: Barfoot & Thompson

Let's start by reprising some facts. Facts are slippery things. They're open to interpretation. They're subject to review. They both inform and are affected by policy and legislation. Most importantly they can be 'spun' to mean something that they are not. But the one thing they do not do is disappear because we wish them away. The brutal reality is that facts neither care about your feelings or your politics.

So let's try some facts for size. The Auckland housing market is a bubble. What is a bubble? A simple definition is 'trade in an asset at a price range that strongly deviates from the corresponding asset's intrinsic value'. The fundamentals of Auckland housing very much demonstrate that situation. Mean household income according to Census 2013 was \$76,500, which also showed that there are around 500,000 dwellings of all types in Auckland. Mean property prices at the time of writing are around \$900,000 (Figure 1). Auckland housing has a \$450 billion capital value and a 12 times multiplier of median house prices over incomes. Is this sustainable in a city of 1.5 million? No.

Another fact: this over-valuation will unwind eventually. All bubbles share two features. First, bubble profiteers deny there is a bubble, saying there is strong sustainable growth reflecting value fundamentals. The rules of economics have been re-written. A new paradigm has emerged from forward-thinking investors.

The second feature of all bubbles is that they burst, including Auckland housing. The question is whether the bubble decompression is gradual with a 'hiss' or explosive with a 'bang'. Arguably that burst is starting, with prices reported to be stagnated or declining across the city. Estate agents are calling cold, mouldy houses on unkempt sections in [insert least favoured suburb] a 'steal' at \$1 million or state there is 'huge potential in a family-friendly location'? Occam's Razor applies to the rational market actors: if an asset sounds ridiculously over-valued, then it probably is. Similarly, is it more likely that the rules of economics linking asset values to incomes are permanently re-written in Auckland, or is something atypical happening and normal entropy will reassert itself?



Default Auckland construction – traditional and from first principles

The only way to avoid collapse is by building more affordable houses for purchase. So how do we achieve this?

As a society we like to pretend bubbles are less serious than they appear and current behaviour is not like that of the last bubble. A dynamic tension arises between clear winners ('It isn't that bad!') and losers ('The worst ever!'). Winners retain the strongest voice from their financial and political power. Bubble losers only gradually gain momentum as society slowly recognises the social consequences.

There is a 'classic asset bubble' as house prices increasingly exceed their fundamental value. We know that it will burst eventually. The only way to avoid collapse is by building more affordable houses for purchase. So how do we achieve this?

Transformational technology

Construction technology sees us in a woeful state. In the 1960s, Intel co-founder Gordon Moore noticed the number of transistors per unit area on integrated circuits doubled annually while the price reduced. 'Moore's Law' is now our default expectation for product improvement. Your phone or computer becomes ever more capable. Our expectations of performance grow year by year, with a phone now capable of email,

photography, storage and even route finding with GPS.

Over the same period of radical advances what has happened in construction technology? Not much. We saw 'innovations and improvements' such as internal guttering, monolithic cladding and the resultant leaky homes. Apart from that, houses are built much as they were. Materials and trades are the same, so the total time to build is close to the same. Productivity has flat-lined at \$34/hour added value compared to a pan-industry average of \$48/hour.

Construction company innovation is around 10% below national average. Construction is growing in expense, irrespective of economies of scale. While Saudi Arabia has signed a recent deal for 1.5 million new homes using 3D concrete printing, the Auckland housing industry struggles to build 7,200 annually against a modest 30-year 'stretch target' of 14,000.

In the context of this pattern, the conclusions are frustratingly apparent. Without transformational technical improvement universally adopted by house-builders with the potential to double

productivity, we can only meet societal needs by doubling our total house-building. Without a transient labour force of skilled workers as in Europe, investment in productivity-enhancing technology is needed.

Housing types

Fundamentally we build the wrong types of houses. Politicians and planners are naïve to expect the free market to deliver an appropriate balance of high and low-end housing. The bulk of recent housing stock expansion comes from individual consumers commissioning a house-builder to construct a house. The government focuses on this demographic and the generated demand to flesh out the housing market.

The problem with this thinking is that the demographic embodied in this 'plan' is creating new stock that suits their needs, not those of the wider society. The bulk of this demographic are earning well above median incomes, more often than not dual income middle upper class couples making highly aspirational lifestyle choices in housing. Consequently, there are substantial trends upwards in the numbers of houses

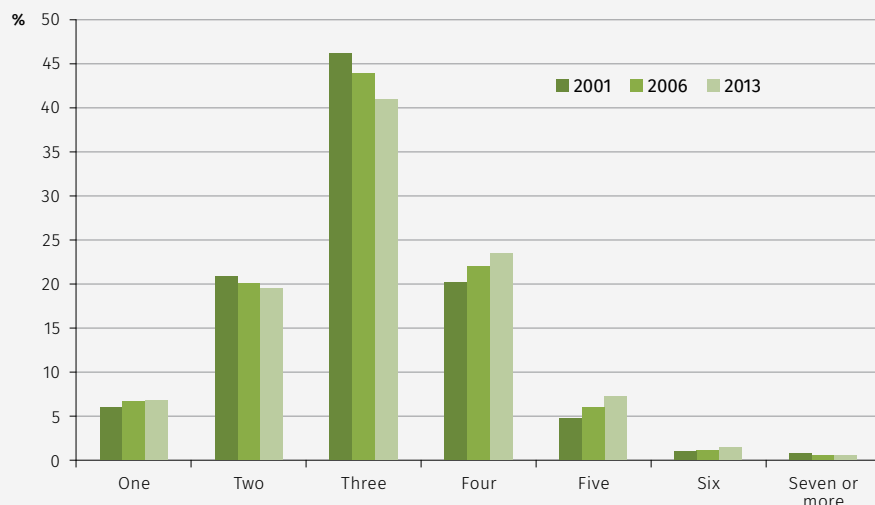
commissioned in the high-end four, five and six bedroom bracket.

Accompanying this trend has been a downward trend in the total numbers of dwellings in the affordable two to three bedroom bracket as a proportion of total housing stock (Figure 2). Given that this figure shows the overall proportions of the total numbers of dwellings in the city, rather than just those of the new stock being introduced, the implication cannot be more stark. Virtually all new housing stock introduced over the last decades is at the top end of the market. How can we improve affordability with smaller homes being built less and less? By definition this increases the relative scarcity of affordable homes available.

Something else to consider is that affordable homes are proportionately more expensive to build than larger properties. Typically, affordable homes are two-plus storeys and multi-unit rather than detached. Scaffolding and other technical requirements (thanks to the Health and Safety Act 2016) has led to a cost of around \$3,400/m². Conversely, large single-storey houses are \$2,000/m². The result? Affordable homes are affordable to the end purchaser, not the builder in the value chain.

Is it logical for builders to construct lower margin housing for the public good if not compelled to do so? New home-buyers tend to specify the largest possible house on their section in order to incorporate the maximum residual value for themselves, reinforcing the trend to larger homes. Laissez-faire planning and management of the market delivers the wrong outputs at the wrong end of the market. Perversely, Special Housing Areas (SHAs) contribute to the trend, with stand-alone sections developed first and affordable housing developed last. Regulatory changes in the Auckland plan make SHAs functionally redundant, with 56% of them de-established.

Figure 2: Bedrooms per dwelling in Auckland 2001-2013
(Statistics NZ, Census 2013)



Fragile business model

The industry lacks strength in depth. 'Large' group builders are by international standards tiny. The largest US house-builder constructs 36,000 dwellings annually, the UK's largest around 16,500. By contrast, New Zealand house-building is literally a cottage industry. Our largest group builders are actually a network of regional franchise holders. These franchisees have minimal connectivity with their peers across the regions, so productivity gains and technical improvements have minimal impact. These regionally-based franchisees have similarly outsourced activities. In reality, 98.5% of building companies are one to three person operations, ephemeral entities subsisting from invoice to invoice, managing credit facilities to stay liquid.

Risk minimisation is foremost in the minds of those participating in house-building. The risk profile of labour-intensive, poorly-capitalised companies requires the spreading of work over multiple projects simultaneously. Revenue from the interim payment on one project pays for the materials on the next and the weekly wage bill for the hourly paid tradies. An industry of this type cannot embody increased demand and scale without recruiting

substantially more tradies and increasing their attendant risk.

Supervision costs increase and overall costs climb as demand increases. The inefficiency of this organisational structure is manifest. Small scale equates to poor bargaining power compared to large group builders. Most of these builders fear the boom-bust cycle and operate with the downturn in mind. Small numbers of permanent workers and the heavily sub-contracted model is optimised for rapid downsizing in a bust rather than increasing production. Altruism for home-buyers is inconsequential amongst their priorities. Builders take only the work they can manage to limit exposure to the 'bust' cycle, thinking in terms of three to five years until the downturn.

Land supply

Land supply is without doubt a critical contributing factor in the current Auckland unaffordability problem. But the assumption that it is the only issue – as appears to be touted by many planners and politicians – is just wrong. To think that more land, released and consented more cheaply and rapidly, automatically equals more housing in the short term is flawed at a fundamental

level. The only circumstances in which this can be true is if the house-building industry has the ability to scale up rapidly. It cannot. As mentioned, we build houses in the same way that we always have, labour-intensive and only minimally mechanised. Increasing the availability of a raw material for production cannot automatically deliver higher production rates.

The capacity of companies involved in land improvement and preparation for construction is as constrained as that of the house-builders. Doubling available land will not double the number of land developers or their capacity. Imagine that a car producer received an additional one million tonnes of sheet steel at their factory at zero cost. Will more cars be produced? No. Any fixed production facility has a maximum capacity for production based on its size and the available skilled labour to operate it. Much more likely is that production is upscaled to match the finite capacity of the facility.

The same is true in the case of the Auckland house-building industry. Inertia in production rates is substantial. Land development requires costly infrastructure, drainage and access. Consequently, it is a financially intensive industry to enter. Once again we expect the industry to absorb the cost and risk of delivering societal needs when increasing production forces down sale prices for all producers. Is it reasonable to expect markets to deliver societal needs, then be shocked when they function in their own interests?

The recent process of the development of the Hobsonville Point former airbase into housing is emblematic. The government as the landowner, through the Hobsonville Land Company (HLC) quango, had the resources to compel the development of all available land in one tranche – but did not do so. Why not? It is hard not to conclude that the government itself thought it necessary to ensure that returns on developed sections were not collapsed through over-supply.

The future

An oft-quoted Einstein aphorism summarises Auckland's housing policy: 'Insanity is repeating an experiment anticipating different outcomes.' We can see there is a bubble in the Auckland housing market. We have been charting it for years. We are in danger of being aboard the most perfectly located financial shipwreck in housing bubble history in this country.

Government thinking is mono-dimensional at best and in denial at worst. The refrain is land, land and land again. Is this a fit-for-purpose solution to what is a hugely complex problem? No. There is an obvious need to transform the construction sector ability to deliver additional volume of the most appropriate types of housing. To obsess on land availability is the equivalent of Captain Blackadder guessing the plan for the next offensive – 'It's the same plan as last time and the 17 times before that.'

Land release and SHAs are failing to address affordability. Appropriate outcomes are not compelled through 'use it or lose it' clauses or incentivised through profit. Similarly, we need incentives to use productivity-enhancing technologies (e.g. prefabrication). Other strategies can include:

- Fast-tracking consents for pre-fabricated housing
- Making consents free for two to three bedroom housing
- Doubling or tripling consent fees for four to five bedroom housing
- Creating a national pre-fabrication plant producing inexpensive kitset housing with a pre-approved building consent for generic designs.

In terms of behaviour modification, we could incentivise landlords to sell off their investment properties. Consider, for example, a scheme where landlords agree to divest their portfolio and they can place their capital gain tax-free into Kiwisaver – provided they commit to not owning directly or indirectly investment property in the future. We have to consider genuine

We are in danger of being aboard the most perfectly located financial shipwreck in housing bubble history in this country.

state housing development (not mortgage assistance schemes) delivering two to three bedroom housing that we need, rather than expecting the industry to deliver homes with lower profits and more risk.

Blackadder economics and political ideology will not magically change what is and is not profitable for the housing industry to build. Auckland housing and the national economy are at a critical juncture. The electorate know it. The question for the government is whether laissez-faire ideology or pragmatic intervention wins the debate. Come what may, decisive action is required now 🙏



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After five years in Wellington, former PINZ board member Ben Gill has moved to London. In this first article from him, he notes the pleasant surprise he found while looking in the notoriously difficult rental market there.

We choose an area

Touching down at Heathrow in late March, my wife and I quickly began the search for somewhere to call home. After factoring in family in West Hampstead, jobs in Farringdon and our desire for park-adjacency, we decided that the St John's Wood area would be our best option. If you are from or have ever lived in London, you may take a moment to laugh at our naivety.

For those less au fait with London districts, St John's Wood borders Regent's Park and in 2014 was believed to have the highest average rental in all of London. Home to Lord's Cricket Ground and Abbey Road studios, former home of Sir Richard Branson, Ewan McGregor and Paul McCartney, it is an area for the

seriously moneyed. Walk up the high street on a normal Tuesday and I guarantee a Bentley will be parked outside the local delicatessen.

The search begins

Refusing to be cowed we began ringing letting agents around the area. To our amazement, every one of them called us back. We took in the details of dozens of flats within our limited budget that were available immediately, while the agents seemed delighted with our zero-children-or-pets, both-in-paid-employment status. To put this in context, imagine a slew of North Shore agents desperate to get you into one of many empty three-bedroom rentals at \$300 a week.



The area was everything we had hoped for, and after detailed inspection of 15 flats we selected one right on the high street for £125 a week less than it had been rented only a year before. We asked what had accounted for the massive decrease in price and were told the local rental market had gone 'a bit soft' over the last year or so. Which got me wondering – is this a correction in an over-priced neighbourhood or part of a larger trend?

What does the data say?

At first blush, it seems the decline in rental prices has been occurring all across London. According to RICS (UK Residential Market Survey for June 2017), price expectations for the London rental market over the next three months are negative, compared with positive expectations for all other UK regions except Scotland.

This latest residential report quotes agents as saying that 'annual rents are falling across all parts of prime London', '[London has become] a tenant's market' and, perhaps most tellingly, 'landlords [are] still suffering from selective hearing.' This helps to explain how we were able to secure our flat at such a low rate compared to last year, and why we continue to see the same over-priced flats being advertised week after week in agency windows.

Perhaps most striking is that the Index of Private Housing Rental Prices, published by the Office for National Statistics, shows the average rental growth for London in the 12 months to July was 1.3%, 0.5% below the UK average. The index shows that theoretically even rental price growth in North West towns like Wigan is outpacing London. In the New Zealand context, this would mean Gisborne rents growing faster than in Auckland.

What is the cause?

Understandably, economists and policy-makers alike are scrambling to make sense of this unusual trend. Many point the finger at the uncertainty caused by Brexit, with its wider impacts on consumer confidence, along with recent domestic political uncertainty as a result of the June election. There certainly appears to be some anecdotal evidence of these factors affecting the rental market, with one agent suggesting that 'Brexit has hit London hard and uncertainty will continue.'

Another letting agent has noticed that 'more overseas tenants are giving notice to vacate and heading for home', with some being replaced quickly enough to sustain prices.

A recent *Financial Times* article suggested that it was an increase in properties being put up for rent rather than sale that is driving London's current rental market malaise. Whatever the cause, declining rental prices in London's residential market is an issue that is beginning to be talked about openly.

Conclusion

Whether the reduction in rental price growth in London is a short-term correction or a longer-term trend is hard to say. What is certainly true is that demand in my neighbourhood continues to soften. At last count, 290 one-bed properties were available to rent in St John's Wood alone. A local agent claimed that the last six months have been the most worrying of his career.

So, if you fancy a taste of London life, now may be your chance to snap up a rental bargain and I'll happily meet you at the delicatessen on St John's Wood High Street. You'll have to walk home though, as sadly the Bentley's not mine! 🐾

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Breaking ground for a Housing New Zealand development in Tamaki, Auckland in 2014

At the age of 30, Leonie was the driving force behind realenz.co.nz, known these days as realestate.co.nz.

LEONIE FREEMAN

A career in property

Leonie started her property degree at Lincoln University straight after high school. It was a careers advisor in her final year who drew her attention to the course – he was interested in getting young women into areas that didn't have many women at that time. The course had both an urban and rural property focus, which appealed to her (she had spent many school holidays on her uncle's farm), so the original plan was to work in the rural property market.

During her second year at university she started working with Peter Cook, a well-respected property valuer and leader in Christchurch. He owned Simes Ltd, a multi-disciplinary valuation, property management and real estate business

covering both residential and commercial markets. This opened up an opportunity to gain practical experience while doing her degree.

She completed the Lincoln University Masters of Commerce degree with honours, majoring in Valuation and Property Management. The Masters programme was new at this time and she only the second person to have completed it.

New technology and RealENZ

Continuing her work as a valuer, once she had registration Leonie moved to Auckland where she worked at Darroch. Her role was to set up technology in the organisation as well as valuing. Her interest

in technology grew and from her early 20s she was speaking regularly at conferences, workshops and other forums about the impact it would have on the valuation profession. Leonie was also involved with NZIV and was a member of the National Education Board and Editorial Board for a number of years.

Returning home from her OE in 1995, she set up her own consultancy business. One of her clients was the Real Estate Institute of New Zealand and she became fascinated by the inroads technology was making, particularly the disruption the internet looked set to stir up in the real estate industry.

Leonie says things were very different 22 years ago. The internet and digital technology were in their infancy. Yahoo was the main search engine – Google hadn't been invented. Access to the internet was by dial up through a phone line and the latest in mobile phone technology was the 'Brick'. These were the days when bigger was definitely better.

She felt that trying to find a house to buy or rent was a hugely time-wasting, laborious and frustrating process – a case of wading through stacks of specialist property magazines. In 1995, against this backdrop, Leonie started sharing a seemingly radical

Interactive Property Management grew into one of the largest independent property management companies in Auckland with a culture, systems and technology unparalleled in the industry.

Leonie at the completion of a new housing complex in 2015 with from left Penny Hulse (Deputy Mayor) and Denise Lee (Auckland Councillor)



idea – a New Zealand-wide website of all the properties for sale and rent, complete with photos, easily searchable by anyone, anywhere and anytime. No brainer, she thought. As it turned out, it wasn't.

At that time, many people in the industry didn't think it was a great idea. She was ignored, the idea was laughed at, and she was told categorically by some supposedly wiser heads that no-one would ever buy property this way. However, perseverance, belief, grit – and support from some key advocates who also got the idea – meant that one of the first commercial websites in New Zealand was launched in August 1996. At the age of 30, Leonie was the driving force behind realenz.co.nz, known these days as realestate.co.nz.

This vein of innovation, change and disruption has coloured much of her business career. However, as Leonie acknowledges, it is not a risk-free strategy. 'When you do this you run a risk. It's a challenge to be different and to think differently. It is easy for people to dismiss a new idea as 'crazy' and tell you no-one will use it.'

She says, 'I've learnt that sometimes the biggest challenge is to show courage and stand up for something when others around you don't see it or understand it yet. For me, it's never about not having any fear. It's about feeling the fear, but being clear about your vision and carrying on anyway. "Keep calm and carry on" isn't a bad mantra!'

Interactive Property Management

Leonie wasn't sure whether it was significant or not that it was April Fool's Day, but on 1 April 2000 she bought a small, run-down, largely residential property management business and called it Interactive Property Management. She ran into much the same response as she had when she floated RealENZ: 'Why are you buying this tin-pot little business in Ellerslie of all places?'

She used to deflect these comments with: 'You only see what's there now – I see what will be there in five years.' She was clear there was an opportunity to re-invent the way residential property management was done in New Zealand and build a team who wanted to share the journey. 'It was very nerve wracking in the first few

months as the business continued to lose money. One thing when you buy a run-down company and every dollar you own is invested in it, is that you need to get clarity on your plan very fast, make decisions and get moving.'

Over the next seven years the business was totally transformed. Interactive Property Management grew into one of the largest independent property management companies in Auckland with a culture, systems and technology unparalleled in the industry.

Corporate and public roles

As mentioned earlier in the magazine, in 2011 Leonie was appointed to the board of Goodman Property Trust, taking a major step into the world of corporate governance. Meanwhile, after a well-earned break she decided to cross the road from the private to the public sector. She assumed the role of Strategic Property Advisor in the set up of the new Super City Council and acted as Project Director for a complex Council development project, and was also for 18 months the General Manager

of Development for Housing New Zealand. Being entrepreneurial by nature and working in the public sector turned out to be a challenge. Her view is that if we are serious about solving some of the major issues facing our country, then we need to find ways for the public and private sectors to work together as true partners.

Auckland's housing crisis

Leonie is also a member of Global Women, an assembly of New Zealand's most influential leaders. A key thread of discussion and emphasis within this group is about 'standing up' and showing leadership. As a leader who commands an unusual breadth of insight into the New Zealand property sector, having held top positions on both sides of the private and public divide, she decided to launch what she believes is the first comprehensive solution to Auckland's housing crisis in October 2016.

She says, 'Auckland is currently the fourth most unaffordable city in the world to buy a house. Even worse, the number of houses being built each year is only reaching half the target urgently needed. We're barely scratching the surface.'

'The old model of centralised hierarchical top-down delivery of big social infrastructure outcomes like housing is bent and buckled. It's clearly not working. And the political game of finger-pointing and shifting the blame is unacceptable. It's like watching your house burn to the ground while you argue about who should be calling the fire brigade. Our failure speaks to my heart and I'm determined to do whatever I can to help fix it.'

She launched her *Housing Connect* solution in October 2016, believing an answer could be found in an initiative called Collective Impact. It's an approach that's been used successfully around the world and harnesses the collective wisdom and

experience of all the players to solve large, seemingly intractable problems.

Momentum continued to build up to the point where she and a small group of committed Aucklanders hosted an Auckland Housing Summit on 1 August 2017 – designed to bring together a wide range of people focused on action, solutions and 'making stuff happen'.

She says, 'I have no doubt that if we do get there, we'll all be looking back in 22 years and thinking this was just another obvious thing to do. There has never been a time when the property sector has had a more high profile, and it's never been more important for us to show leadership on some of our country's most critical issues. As Margaret Mead once said, "Never believe that a few caring people can't change the world. For, indeed, that's all who ever have".'

Book project

Leonie is currently writing a book focusing on how to transform and build businesses. It is illustrated with case studies and a trove of her own personal stories across several decades of creating change and growth.

Awards

The main thing Leonie recalls about having the Supreme Property Award and Life Membership bestowed on her at the recent Property Institute Conference was being 'a bit floored by the honour.' She says that, 'Awards like this actually prompt some honest reflection. It's a real reminder of how time speeds by and the changes and innovations we've seen in that time.' It struck her that it was almost exactly 22 years earlier that she was awarded the Young Professional Valuer of the Year award in 1995 – also at a conference in Queenstown.

She has also recently been nominated as a finalist in the Westpac 2017 Women of Influence Awards. The winner is announced in September 🍷



Top: From left Peter Thompson, Managing Director Barfoot, Leonie and Peter Cook Establishment Chair of RealENZ at the 20th anniversary dinner of its launch in 2016.

Middle: Leonie and others receiving a Fellow award in 2005.

Bottom: Interactive at a conference with Jodine Clark and Derek Slad in 2004.

RENT REVIEW MECHANISMS IN COMMERCIAL LEASES

Matters to consider when negotiating your next lease

NICK WILSON AND LUCY WESTENRA

Simply relying on standard form rent review provisions may not always serve the best purpose or protect a landlord or tenant's interests as well as might be possible. We discuss rent reviews and set out some specific points that landlords and tenants should turn their mind to when negotiating a lease.

When a commercial lease is negotiated there is always commercial tension. A landlord will usually want to maximise the return on its investment over the lease term, whereas a tenant may seek to reduce the frequencies of rent reviews and where possible place a cap on rental increases.

Whether you are a landlord or tenant, it is worth considering whether the rent review provisions you negotiate into your lease adequately protect your investment in the event of fluctuations in New Zealand's economy or in a rising or falling market.

Purpose of a rent review


The objective of a rent review is to ensure rent is appropriately reassessed throughout the lease term despite a fluctuating property market and/or a shift in the value of money. Historically, the two main reasons for including a rent review clause were to ensure:

- A landlord's rental return and tenant's rental liability increased in line with inflation, and
- A satisfactory yield is produced for a landlord, having regard to the value of the property.

Previous major global economic events have rattled the property market over recent decades and in some cases impacted on commercial rentals. It is crucial to consider how your rental investment or rental liability is likely to be affected by an economic boom or bust. Rent review clauses can be appropriately negotiated and drafted to allow upward and (where it can be negotiated) downward adjustments to either reflect or disregard changes in market conditions.

Standard form leases

The Auckland District Law Society (ADLS) lease and the Property Council of New Zealand (formerly BOMA) lease are widely used for commercial leasing in New Zealand. The ADLS lease is considered to generally fairly balance the interests of both parties, while the Property Council lease is often referred



It is crucial to consider how your rental investment or rental liability is likely to be affected by an economic boom or bust.

to as a 'landlord's lease'. The Property Council lease is more comprehensive and is commonly used for large-scale retail and office premises.

While these standard lease forms are an excellent starting point and often entered into without amendment to the standard terms, it is worthwhile to carefully consider any unique circumstances of a particular proposed tenancy and to adapt the default provisions to suit. This is especially important when it comes to documenting a rent review mechanism.

There are several examples where negotiating away from the default rent review clauses could be more appropriate in order to:

- Maximise rental return
- Provide certainty of income or cap a tenant's liability, or
- Ensure that rent is either regularly adjusted, or is not influenced, by prevailing market conditions.

Three key issues relevant to rent reviews include: timing and procedure for rent review; reviewing to market rent or using other formula; and the ratchet clause.

Timing and procedure for rent reviews

Most leases include specific steps and timing for initiating the review process, notifying the tenant and disputing a reviewed rent.

Timeframes for notification

Timing is often paramount in leases but not all provisions relating to rent reviews make 'time of the essence':

- The ADLS lease provides that an 'initiator' of a rent review (which under the current version of the ADLS lease can be the landlord or tenant) must notify the 'recipient' of the revised rental not earlier than three months prior to a market rent review date and not later than the next rent review date, regardless of whether the next review is based on market value or movement in the Consumer Price Index (CPI).

- The landlord is the only party able to initiate a market rent review under the default terms of a Property Council standard office lease. The timeframe for giving notice is slightly wider at four months prior to the rent review date and there is no express restriction on serving notice once the review date has passed.

Whether both parties are able to initiate a rent review can be a matter that is up for negotiation.

Serving notice after the specified rent review date

The courts have generously interpreted rent review clauses and found that where only a landlord has the ability to exercise a rent review, that it will not be obliged to do so (see, for instance, *AMP Society v National Mutual Association of Australasia Ltd* [1995] 1 NZLR 581). In a rising market, tenants may benefit from negotiating a tighter timeframe and limiting a landlord's ability to review the rent once the specified timeframe has passed.

Although some leases allow landlords to initiate a review of rent at any time once a review date has passed, it may not be

possible for landlords to backdate the rent if a specific period has passed since the rent review date. For example, under the current version of the ADLS lease, the new rental will only be effective from the date of review, where a notice of rent review is served more than three months after a rent review date.

From a best practice perspective, it is recommended that landlords routinely diarise rent review dates to ensure that reviews are initiated in a timely manner and that they receive the full benefit of any rental increase.

Challenging new proposed rental amount

Time is usually of the essence where a party wishes to challenge a new proposed rental amount. Under the ADLS lease, either party can lose its ability to negotiate the new rent if it does not give notice within a period of 20 working days. If the new rent is not disputed within that time, the recipient is deemed to have accepted the new rent.

Aligning rent review with renewal of lease

Aligning dates for exercising a renewal of lease with a rent review is also important from a tenant's perspective. Often a tenant is bound to give notice of its intention to renew a lease either six months or three months before the end of the lease term, and before it is aware of what the revised market rental will be from the renewal date. In such cases, a tenant should obtain valuation advice to assess its likely rental liability and decide whether it should exercise the renewal. Alternatively, a lease can be adapted to allow the rent review to be exercised before the renewal of lease is required to be exercised.

Market rent or a formula?

Simply relying on market rent reviews may not best serve a landlord or tenant's objectives.

The courts have found that in the case of a market review where the rent is to

be 'agreed between the parties, or failing agreement, by arbitration' (G.W. Hinde, *Hinde on Commercial Leases* (3rd ed), LexisNexis NZ Ltd, Wellington, 2015, p.174), 'an objective test of reasonableness' is more helpful for determining market rent (*Modick R C Ltd v Mahoney* [1992] 1 NZLR 150 at 154).

Market rent should be based on the figure agreed upon by 'free and adequately informed' parties and not what is considered a 'proper' return on a landlord's investment (*Modick R C Ltd v Mahoney* [1992] 1 NZLR 150 at 155 and *Wellington City v National Bank of New Zealand Properties Ltd* [1970] NZLR 660 at 678 (CA)).

Many leases, including the ADLS lease, now allow for a combination of market and index-based reviews throughout the lease term to allow for return on rental investments to be better realised and/or balanced for both parties.

In addition to the most commonly used 'market rent review', there are various alternative mechanisms that can be used for determining rent under a lease. The most common of these are: CPI rent reviews (index-based); rent calculated by formula (a fixed percentage increase); and turnover rent.

CPI rent reviews

A CPI rent review is a common alternative to market rent reviews. It provides a cheaper mechanism than a market rent review as there is no need to obtain a rental valuation. The CPI is a measure of inflation in New Zealand and is an inexpensive way to ensure rent is consistently adjusted in accordance with the Reserve Bank's calculator and with inflation increases. The annual CPI increase has averaged around 2.7% per annum since the 2000s and 2.4% per annum since the 1990s, compared with an 11% average annual increase during the 1970s and 1980s.

Although a CPI rent review provides a degree of certainty for both parties, there is a danger that rentals could either

fall behind true market value or exceed the market value if there are significant fluctuations in inflation. To mitigate this risk, a landlord will often insist on regular market rent reviews taking place, in addition to the CPI reviews, to prevent the rent from lagging below its true market value.

Rent calculated by a formula

Rental formulas rely on a fixed percentage increase to the rent. Landlords can avoid a stagnating CPI by providing that the current rent must increase by a fixed percentage (say 3%), or in accordance with the CPI, whichever is higher. A tenant, on the other hand, can manage its future liabilities by providing for a fixed percentage increase, which will avoid uncertainties and/or material rental uplift in times of market growth or high inflation.

Turnover rent

Turnover rent is sometimes found in retail or hospitality leases. It is usually based on a percentage of open market rent (typically 75-80%, often referred to as a 'base rent'), plus a fixed percentage of the tenant's turnover. There are various ways of determining the appropriate formula and consideration should be given to the type of premises and the tenant's business.

Under a turnover rent arrangement, a landlord is afforded with a considerable degree of certainty of rental income while tenants are incentivised to take a gamble on entering into a new lease. This can often be an attractive model to tenants, as landlords would share in the tenant's pain during periods of economic difficulty. A turnover rent can incentivise a landlord to assist its tenant to succeed at the premises as the landlord will also benefit while a tenant is trading profitably.

Landlords would often seek to include a periodic market rent review of the base rent where a turnover rent mechanism applies and could even impose penalties on the tenant for periods of inactivity to ensure a

consistent rental is achieved. However, it is worth noting that the complexity of drafting and administering turnover rent review mechanisms can be costly and can also be a cause for conflict where there is a difficult working relationship between a landlord and tenant.

The ratchet clause

Ratchet clauses are now a common feature within New Zealand commercial leases. It is rare to see a lease with no form of ratchet applying. A ratchet provision protects a landlord's investment by ensuring a stable or increased rental during the term of the lease and will act to either fully or partially prevent a reduction in rental. There are generally two types of ratchet clauses:

- A hard ratchet clause prevents a rental from decreasing below the rent payable immediately prior to the rent review. This is now a standard provision in clause 2.1(d) of the ADLS lease and is favourable to landlords as it ensures the rent only goes in one direction – up (see Auckland District Law Society Inc, *Deed of Lease* (6th ed), 2012(4)).
- A soft ratchet, otherwise referred to as a 'partial ratchet' clause, is more tenant friendly as it enables the rent to potentially decrease at a rent review, provided it never falls below the commencement rental.

The 1987 stock market crash was a trying time for New Zealand tenants, as many were locked into a lease paying rent that was well above market rent. Many tenants unsuccessfully challenged rent review clauses that only allowed rental increases on the basis that they did not reflect the current economic state. Various lessons have emerged from this.

Where there was no ratchet provision in the lease, some landlords chose not to initiate a rent review, where the lease allowed, so that a higher rent could be collected during a time of falling rents. The current version of the ADLS lease now

addresses this as either party is entitled to initiate a market rent review under clause 2.1 (see Auckland District Law Society Inc, *Deed of Lease* (6th ed), 2012(4)). However, as noted above, this is not currently possible under the standard form of Property Council lease.

Cap and collar

A 'cap and collar' rent review can be a useful way to circumnavigate an unpredictable market and ensure rent variations are reasonably limited. To provide for a cap and collar, a ratchet clause is adapted to include:

- A collar of (say) 5%, which ensures a revised rental does not decrease by more than 5% of the previous rental, and
- A cap to ensure that the rent does not increase by more than (say) 5% following a market rent review.

This is a useful negotiating tool where market rental movement is uncertain and both parties are willing to accept the 'compromise' position of a cap and collar. We acknowledge that this option would usually only be available to a tenant with a strong bargaining position.

Tailor your rent review provisions

Where it is able to be negotiated, it is worthwhile having your lawyer tailor the rent review provisions to best suit. Before proceeding with a standard form rent review clause, landlords and tenants should consider their business requirements and how a fluctuating economy or other change in the market might affect them.

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 ☞

The 1987 stock market crash was a trying time for New Zealand tenants, as many were locked into a lease paying rent that was well above market rent.



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IRRIGATION AS A FACTOR IN VALUING LAND

GREG PETERSEN

Importance of irrigation

When valuing rural land, the biggest influence is the quality of the underlying physical resources – the location, soils and irrigation water availability. Improvements such as buildings and fencing have a finite economic life and can be changed to suit with time and capital. However, the underlying physical characteristics of the land are essentially fixed.

Where land benefits from irrigation water it may be sourced from consented groundwater, surface water take or from an irrigation scheme. However not all water resources are the same, so it is important that the volume, reliability,

cost and infrastructure are all considered when assessing the value of irrigation to the land. Valuation of rural land requires a careful consideration to ensure that the property receives the right amount of irrigation water when the farm needs it, at a reasonable cost, and that the infrastructure is in place to ensure the most efficient use of the water.

Volume

The volume of irrigation water that a property receives determines the potential land area which can be irrigated. As valuers, we determine whether the volume of water is sufficient for the irrigated area of the property

and if further irrigation development is possible. If a property has insufficient irrigation water we cannot place full value on the irrigated land area or the infrastructure in place to utilise this water.

Key questions to ask are:

- Do the weekly, monthly or annual volumes place limitations on the actual abstraction rate per second?
- Do nutrient loss rules and consent conditions limit the taking of water?
- What are the irrigation requirements of the soils?
- What is the annual rainfall and the seasonal distribution of rainfall?

Not all water resources are the same, so it is important that the volume, reliability, cost and infrastructure are all considered when assessing the value of irrigation to the land.

Centre pivot irrigators

Reliability

It is important to consider whether the water is available when it is needed. Water storage can ensure that water is available to continue irrigation in the height of summer when consented or scheme water may be less reliable. Some groundwater takes have a high degree of reliability, whereas some surface water takes are subject to the maintenance of minimum flow rates, which are often at their lowest when irrigation is most needed. Important factors are:

- Is water storage required?
- What is the long-term reliability of the water source?
- What is the duration of the consented water take?
- What is the likelihood of the consent being renewed?

Cost

In periods of strong value growth, the relative cost of irrigation is not always fully factored in. In a rational market, those properties with access to lower cost irrigation should be valued at a higher rate compared to otherwise similar properties but with more expensive water sources.

The cost of irrigation water, whether it be scheme annual costs or electricity, is a significant farm working expense and impacts on profitability and subsequent value. Questions to consider are:

- What is the annual cost of irrigation water?
- Is it provided at pressure?
- What is the depth of groundwater?
- What pumping costs are likely to be incurred?
- What are the storage costs?
- Will the annual cost of water decrease once the debt funding portion of the shares is repaid?

Irrigation infrastructure

The on-farm infrastructure enabling irrigation ensures that water is used in the most efficient way. Some farms may be facing significant infrastructure costs to upgrade to centre pivot and fixed grid irrigation to ensure nutrient loss targets and reductions are met.

The market value of a farm therefore needs to incorporate all future capital expenditure requirements:

- Is the infrastructure sufficient for the area to be irrigated?
- What is the irrigation return?
- What is the age of infrastructure?
- Does it require significant maintenance?
- What is the evenness of application?
- Does the property have soil monitoring?
- What are the labour requirements of the infrastructure?
- What are the future capital expenditure requirements for pumps and pipes?
- Will nutrient loss regulations require an overhaul of the irrigation system employed on-farm?



Irrigation water storage dam

How the water is sourced, stored and applied to the land and how much of it is available is essential to the value of the rural land. It has a significant impact on both sides of the equation. It increases the productivity of the land, but also adds to the operational costs of the farm and the future capital expenditure required.

To accurately value an irrigated rural property, it is necessary to carefully analyse the total volume, reliability, cost and suitability of irrigation infrastructure in relation to the intended use of the land and future operations 🌀

This article was previously published in 'Irrigation NZ News' (Winter 2017 issue).



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PINZ branch events

Northland

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

Auckland

Branch Chair: Patrick Foote
patrick@gctvaluers.co.nz

🕒 Upcoming events:

- 13 September, 7am–9am – Wynyard Quarter Revitalisation Project
- 10 October, 7am–9am – How Do We Solve the Housing Crisis?
- October – PINZ Auckland Branch Breakfast Winter Workshop (TBC)
- 2 November, 12pm–5pm – The PINZ Auckland committee is hosting their half-day seminar at the Novotel Ellerslie (full details to be circulated in the next few weeks)

Waikato

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

Rotorua

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

🕒 Upcoming event:

- October – Annual Pedestrian Count (date TBC)

Tauranga

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

🕒 Upcoming event:

- 20 October – Marine Precinct visit

Gisborne

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

Taranaki

Branch Chair: Stephen Hodge
stephen@taranakipropertyvaluers.nz

🕒 Upcoming events:

- Waitara land freeholding update (TBC)
- Land contamination presentation (TBC)
- Taranaki buildings water penetration and weatherproofing presentation (TBC)

Hawke's Bay

Branch Chair: George Macmillan
george@morice.co.nz

🕒 Upcoming event:

- 14 September, 4.30pm – Come and inspect the exceptional conversion of an historic woolshed that now provides quality office accommodation for numerous tenants, including NOW and Xero, alongside a licensed Adoro cafe



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

Wanganui

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

Manawatu

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

🕒 Upcoming event:

- 31 August – Massey Spring Seminar

Wellington

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

🕒 Upcoming event:

- October/November (TBC) – Women in Property event

Nelson

Branch Chair: Simon Charles
simon@dukeandcooke.co.nz

Canterbury Westland

Branch Chair: Simon Newberry
simon@fordbaker.co.nz

🕒 Upcoming event:

- 1 & 2 September – 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:

- 4 September – Wakatipu Valuers Study Group
- 13 September, 8am – Breakfast at Toro where Mayor Jim Boulton will be speaking to us on proposed changes to the district plan and the housing affordability taskforce
- 2 October – Wakatipu Valuers Study Group
- 6 November – Wakatipu Valuers Study Group

Otago

Branch Chair: Adam Binns
adam.binns@abcommercial.nz

Southland

Branch Chair: Hunter Milne
hunter@hmvaluation.co.nz

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