

NEW ZEALAND

SPRING/SUMMER 2019 | \$12.99

PROPERTY PROFESSIONAL

MAGAZINE



**COMMUNITY
LOGOS
LAUNCHED**



Exploring
Build to Rent



**ENGLISH AND
NZ PLANNING
SYSTEMS**



Changing
land use and
climate change



We know property

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We are unique – our property team focuses on property issues exclusively while other aspects of developments are tended to by our experts in construction, planning and financing.

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Getting my feet under the desk

VIV GURREY



What a hugely busy couple of months! After taking up my position in early September my feet have barely touched the ground as I've moved from place to place meeting key stakeholders, attended PINZ Board and Council meetings, finalised budget forecasts for 2020, and worked to complete Service Level Agreements (SLAs) with the communities that fall under the PINZ banner.

As I write this, I'm at the Australian Property Institute Conference, meeting my counterpart(s), learning about their work and building the foundations for a strong relationship. The learning curve has been steep, and would have been near impossible without the support of the incredible team at national office and of the Board.

What's become clear in my first few weeks is the huge opportunities that lie ahead of the organisation. There are obvious challenges, as there always is in a membership organisation, but the obvious goodwill and strong history of the Institute has been a real feature of my short time as I've come to know more about you and what you do.

Over the next couple of months my diary is filling up fast, with various meetings, including scheduled get togethers with Ministers, sponsors and branch chairs.

One of my early priorities on taking up the new role has been to work with the team to start finalising details for our national property conference in Auckland during July next year. As you'll see in the pages that follow, we're gearing up for a special 20th birthday celebration in 2020, which will involve a celebration of how far we've come and what we've achieved over the past two decades. Watch this space for some interesting initiatives as part of the 2020 programme.

Elsewhere in this magazine, you'll see that the Property Institute has completed its long-awaited

rebranding exercise for professional communities. This project has been part of an overall push to hand back more autonomy and power to the diverse groups of professionals who make up the PINZ family.

The New Zealand Institute of Valuers (NZIV) is probably further ahead on the roll-out of this than some of our other councils, but the Property Managers Institute of New Zealand (PROMINZ) is embracing the new opportunities and our other communities are now in a position to follow suit.

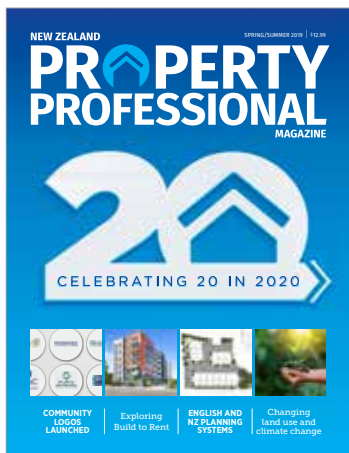
It's an exciting time to be part of PINZ and we're looking forward to helping each of these groups develop and grow their unique identities and strategic priorities.

Other articles appearing in this edition of Property Professional include a feature on the inaugural recipient of the Property Institute – Keystone Trust scholarship, a great article on 'Build to Rent', and an analysis of changing land use with respect to climate change.

On a slightly more morbid note, there's also an informative piece on what happens when the owner or director of a small business passes away by our regular contributor Vaughan Wilson.

We hope you enjoy your read, and in the meantime, if you have anything you'd like to raise with me, you're more than welcome to contact me via email: vgurrey@property.org.nz.

Viv



SPRING/SUMMER 2019

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Publisher

Property Institute of New Zealand.
Property Professional is published quarterly and a copy goes to every New Zealand based member of the Property Institute. The articles are not peer reviewed and represent the unaudited views of the relevant authors. If you have any questions about the content of an article please contact the Editor or the relevant author.

ISSN 2253 5179 (Print)

ISSN 2253 5195 (Online)

CONTENTS

Spring/Summer 2019

FROM THE CEO

- 01 *Viv Gurrey*

COVER ARTICLE

- 04 **New era for Property Institute – community logos launched**

20 IN 2020

- 09 **Join the Property Institute celebration**

SCHOLARSHIP

- 10 **Keystone Trust Scholarship – our first recipient – Hannah Wilson**

GENERAL ARTICLES

- 12 **Get ready for 'Build to Rent'**
Tamba Carleton

- 16 **The English and New Zealand planning systems – a comparison**
Carly Hinde

PROMINZ CONFERENCE

- 22 **Raising industry standards – PROMINZ Conference 2019**



PROFILE

24 **Going into bat for property managers**

David Pearce



LEGAL AND TECHNICAL

27 **Changing land use – the role of forestry in fighting climate change**

Mark Baker-Jones and Rachael Witney

32 **Small property businesses – what happens when an owner/director passes away?**

Vaughan Wilson

PINZ NOTICES

38 **PINZ branch and regional news**



New era for Property Institute

COMMUNITY LOGOS LAUNCHED

About 18 months ago, the Property Institute of New Zealand began to formalise and execute a policy that would pave the way for each of its profession-specific communities to have their own voice and identities.

One of the major planks of this strategy was to deliver new community names and logos. In the past few months these have all been ratified by the various Councils.

Members of these communities are going to be encouraged to promote and use the logos, where possible, to further enhance public understanding of the numerous industry sectors that PINZ seeks to represent and provide member services for.



New Zealand Institute of Valuers (NZIV)

Last year, the New Zealand Institute of Valuers Council voted to refresh its logo. It was the first cab off the rank in the PINZ family. Obviously, the name is steeped in history, and prescribed in law by the 1948 Valuers Act, so a name change was never on the table.

However, the new logo draws in elements of its previous incarnations. NZIV members will be encouraged to use it as much as possible, with NZIV supporting a strategy to better differentiate itself and promote valuation as a profession.

NZIV members are the authority when it comes to real property valuation. The Institute will work with PINZ to develop a communications campaign to ensure members of the public and other industry sectors understand this.



Property Managers Institute of New Zealand (PROMINZ)

PROMINZ is the Property Institute's newest community representing residential property managers. Because PROMINZ was new, its branding was prioritised and launched early to ensure members and prospective members understand that this community is for them.

PROMINZ was formed following the decision by the Independent Property Managers Association (IPMA) to join with PINZ and work towards positioning themselves ahead of potential residential property manager regulation.



Commercial Property Managers Institute (COMPRO)

Not to be confused with PROMINZ, COMPRO replaces the former Property & Facilities Management Community. It is a vehicle for PINZ property and facilities managers who specialise in the commercial sector.

Last year, the New Zealand Institute of Valuers Council voted to refresh its logo. It was the first cab off the rank in the PINZ family.



The Institute of Property
Advisors & Consultants

Institute of Property Advisors and Consultants (IPAC)

Formerly the Property Advisory Professional Community, IPAC will be the new home for members of this community.



PLANT &
MACHINERY
VALUERS INSTITUTE

Plant and Machinery Valuers Institute

Previously known as the Infrastructure, Plant & Machinery Valuation Community, the Council has decided to incorporate the word Institute into their new name. As a highly specialised part of the valuation community, the Plant and Machinery Valuation Institute hopes to use its new branding as part of an awareness campaign to attract new blood to the sector.



PROPERTYJOBS

PROPERTY
INSTITUTE

Property Institute of New Zealand (PINZ)

All of the new logos will almost always appear alongside the PINZ logo in communications and signage at events. However, it is expected that over time these specific logos will be used in event and education promotions so community members can more easily identify subjects and opportunities that will benefit them specifically.

The high bar for PINZ membership remains unchanged, and the Institute will remain the masthead for the broader organisation, albeit with more focus being devoted to the individual communities within

Other PINZ brands

The Property Institute of New Zealand maintains a couple of other important brands as well.

One is PropertyJobs which replaced the old JobMail service in mid-2017. It is a website and newsletter designed specifically to help property professionals and employers connect.

There is also the Property Industry Quality Assurance (PIQA) programme. This is a one-stop shop for property businesses striving for the edge over their competition through a programme of site audits and best practice advice.

WHAT'S YOUR PROPERTY REALLY WORTH?

Are you considering the purchase or sale of a home - or wish to use the equity in your asset?

Everyone can have an opinion on a property's value – and normally everyone does! But is it coming from someone that has tertiary qualifications in property valuation? Are they independent? Different services (such as Council CV's, and free 'valuation' sites) claim to provide a valuation but most of them create confusion and are simply estimates.

If you require sound valuation advice, there is no substitute for a Registered Valuer.

To find a qualified Registered Valuer, go to www.nziv.org.nz

**Registered
Valuers are most
trusted to give an
accurate market
valuation**

*Curia Market Research,
Feb 2018

NZIV 
NEW ZEALAND INSTITUTE OF VALUERS
www.nziv.org.nz



NATIONAL PROPERTY CONFERENCE
SAVE THE DATE

A black and white photograph of three people smiling at a conference. A woman on the left is looking towards the center. A woman in the middle is looking at the camera. A man on the right is also looking at the camera. They are all smiling. The background is slightly blurred, showing other people and an 'EXIT' sign.

8th, 9th and 10th July 2020
Auckland

at the Cordis Hotel formerly the Langham

More information coming soon, at: www.propertyinstitute.nz

20 in 2020

Join the Property Institute celebration

The Property Institute was incorporated in late 1999. In 2000, the organisation formed from the amalgamation of the New Zealand Institute of Valuers (NZIV), the Property and Land Economy Institute of New Zealand (PLEINZ) and the Institute of Plant and Machinery Valuers (IPMV) became a reality.

In 2020, the Property Institute of New Zealand will be marking this important year in its history. A couple of months ago the PINZ Board appointed a sub-committee to start planning for 2020 and their thinking is now beginning to take shape.

One of their main priorities will be next year's Annual Conference, which will be held in Auckland in July. There's to be a strong emphasis on our shared history as an organisation, celebrating the successes we've had along the way, and revisiting some of the significant events

that have helped shape the Institute into what it is today. There will also be a strong focus on the future and the next 20 years as PINZ gears up for the opportunities and challenges which lie ahead.

As part of the build up to 2020, we've trawled through our archives, and in the next few months we'll be sharing some of those articles and documents with you. To get the ball rolling, here are some extracts from a document titled 'Proposal to Establish the New Zealand Property Institute' produced almost exactly 20 years ago.



THE TIME IS RIGHT FOR CHANGE

A programme to encourage the emergence of a wider-based property professional group was initiated following the NZIV's AGM in Napier in

April 1998. The Council first took this vision to the membership in a road show around the branches in November of that year. Following overwhelming endorsement by members after this year's AGM, we have developed the final model for NZPI to take to a final round of road shows later this month, followed by a vote in September. An enormous amount of energy and hard work has gone into producing what we consider is a robust NZPI model. I must pay tribute to the ongoing mutual goodwill from all those involved from NZIV, PLEINZ and IPMV, which has enabled this process to develop. Undoubtedly it will evolve further. More importantly, all members now have the opportunity to embrace the enlarged organisation and enjoy the enhanced services and higher profile that must come from a more vibrant, wider-based membership. I urge you to read this booklet, debate the issues at the final road shows and vote for positive change and real progress for all our members in the future.

ALAN STEWART, PRESIDENT NZIV

We have an opportunity to define the shape of the New Zealand property profession as we move into the new millennium.

Nationally, and internationally, professional and occupational groupings are extending traditional areas of expertise and service delivery. In the New Zealand property industry we will now decide whether we present a unified and cohesive face and develop opportunities for our members, or remain segmented and, in the end, diverse and in competition with one another.

The proposals in this booklet represent many hours of careful and deliberative discussion and negotiation on behalf of the Institutes, including a review of the position of our trans-Tasman counterparts with whom we have increasing interaction. The Presidents and Councils of the Institutes unanimously commend the proposals to all members, and urge that you take the time to read the booklet and attend the information sessions in your local area. We ask that you cast your vote in the affirmative when the ballot papers are forwarded to you later this month. The future of our profession is in your hands.

GREG WRIGHT, PRESIDENT, PLEINZ



A portrait of Hannah Wilson, a young woman with dark, wavy hair, wearing a green V-neck shirt and a necklace with a heart pendant. She is standing in front of a light-colored wall with a green plant to her right.

**Keystone Trust Scholarship –
our first recipient**

**HANNAH
WILSON**

It is incredibly encouraging to know that these people who I aspire to be like care so much and really want to see deserving students go far.

Hannah Wilson is the first recipient of the PINZ/NZIV Keystone Trust Scholarship. In 2019, the Institutes entered into a partnership with the Keystone Trust to provide \$5,000 of funding to a student on track to complete their property degree.

For readers who don't know about the Keystone Trust, it provides support and funding for worthy students who face barriers to university, be they financial or social. After an application and interview process Hannah was selected as the first recipient of the scholarship.

She is in her third year of a four-year degree at Lincoln University where she is studying for a Bachelor's degree in Land and Property Management. *Property Professional* asked Hannah a few questions. Here are the answers in her words:

What does the scholarship mean to me?

To receive the scholarship is an incredible honour. I feel overwhelmed with happiness and support. I have always been extremely motivated to achieve my dream job and become a valuer. After receiving the PINZ/NZIV Keystone Trust Scholarship, I feel even more determined to achieve above and beyond.

It is incredibly encouraging to know that these people who I aspire to be like care so much and really want to see deserving students go far. With the support of this scholarship, I look forward to 2020 and feel ready to face any challenges. I have a feeling my final year at Lincoln University will be the best!

Being the first of my family to attend university, I have always been told how proud they are. Telling them I received the scholarship was such an awesome moment! The support received means I am able to spend less hours at my part-time job and more on my studies.

How am I finding my property courses?

Starting the degree, I knew exactly what career I was pursuing – valuation. I must admit, I was so excited to start my valuation classes I suffered from slight tunnel vision and hadn't given much

thought to the other classes. Three years into the degree I can say every class completed has benefited me greatly and contributed to an all-round understanding of many property aspects.

Principles of Valuation, Valuation of Investment Property, Building Construction, Real Estate, Land Law, Facilities Management, Property Management and Property Analytical methods are some of my favourite classes completed so far.

From designing and constructing a miniature bridge, pouring concrete, interviewing real estate agents, property inspections, to producing budgets and leases for multi-tenanted buildings are just some of the my favourite experiences so far.

My absolute favourite classes have been Principles of Valuation and Valuation of Investment Property taught by Mark Dow. These classes have allowed me to get out of the classroom and get a taste for what the job will be like. Being able to perform practical inspections on a wide range of properties and produce a valuation report has really solidified my decision to pursue a career in valuation.

Why have I chosen a valuation career path?

To be able to work hard for something I have such a passion for has always driven my career choice. From a young girl, I have always been drawn to the property industry and knew even in high school I was to pursue something within the industry.

With school coming to an end, I decided to visit the careers advisor and explained my love of property to them. I remember her suggesting real estate and other related jobs, which interested me, but I wasn't sold. About 15 minutes into our discussion she suggested valuation. I can't explain it, I knew instantly that was it. I remember leaving the careers advisor's office with this fuzzy excited feeling. I was excited for my future, and still am.

There is something really satisfying about being able to produce a report that is useful and relatable to the average person. To be able to get out, inspect a property, and determine the market value with the use of dynamic calculations is such an awesome mix.

From a little girl, I remember snooping around houses I had never seen before. I was fascinated how every home was unique, with no two homes identical. I believe that same curiosity and natural interest has led me to a career in valuation 🏠

GET READY FOR 'BUILD TO RENT'

Build to Rent (BTR) is one of the newer buzzwords trending in the property market, up there with prefabrication, co-working and multi-storey warehousing. Tamba Carleton looks at how the rising number of renters is making this option more attractive. She also discusses the unfair tax treatment of BTR, as well as the increased construction costs, that are affecting this type of development.

TAMBA CARLETON

The Uku apartment building that was part of the Kerepeti development in Hobsonville. Led by New Ground Capital in partnership with Ngai Tahu and NZ Super Fund, this building features 47 BTR units pepper potted with market housing

There has been a lot of chatter on this topic over the past couple of years, with many people recognising the significant opportunity that it presents to investors and developers, all while fulfilling a critical need for more rental housing in our cities. This is especially the case in Auckland, where only in the past decade have the tables turned to have more people paying rent in this city than paying a mortgage. The flipside of declining home ownership rates elevates the need for a greater variety and depth of rental product and a more sophisticated rental sector.

What is BTR?

BTR is purpose-built, multi-unit residential rental housing. It is different from the apartment and terraced housing developments that we have seen in the current cycle, as almost all of these have been 'Build to Sell' (BTS), i.e. sold to individual owner-occupiers and investors. BTR, unlike BTS, is designed for and intended to be held by a single long-term investor owner. This means there are many, not so subtle, differences between the two. With operation and maintenance costs being a major influence on investment profit, the fixtures and finishes of BTR housing are chosen for their functionality and durability rather than just their aesthetic appeal.



Architectural render for Tower Works, a 245-unit scheme in Leeds, UK. This BTR development combines a waterfront location, state-of-the-art piazza and historic towers surrounded by a vibrant mix of hotel, boutique office space and independent restaurants and bars

At a fundamental level the unit layouts are also different. Symmetrical, standardised design is important. A two-bedroom unit in a BTS apartment building will often feature two different sized bedrooms with one being a larger master bedroom, potentially with an en suite and walk-in wardrobe, and the other being a basic double bedroom. The BTR equivalent, on the other hand, has bedrooms that are the exact same mirror images of each other to enable the same rent to be charged on each bedroom.

Increase in rental market

The number of renter households in New Zealand is growing, not just in line with population growth, but faster. In the past 10 years, owner-occupier households have grown by 43,000 or 4%. This compares to the growth in the number of renter households by 120,000 or 25%. The main driver of this is the housing choices people make within their financial constraints and the high barriers to home ownership, especially for single person households.

Inability to access home ownership leaves little alternative other than renting.

New Zealand's rental sector is mainly provided by private investors, typically small-scale mum and dad type investor owners looking to supplement retirement income with a tangible asset. An asset price growth of ~7% per annum in Auckland has proven residential property to be a high-performing asset class and it has attracted more and more investment. During the 2015 peak, 20% of New Zealand mortgages were issued to investors. Conversely, just 6% of mortgages were issued to first home buyers.

House prices in Auckland have been flat for the last two years. This has been good news for first home buyers who have been increasingly active in the market, with total borrower numbers for this group now 37% higher than what they were in 2015. This reduces rental demand by taking these households out of the market and into home ownership, but as these buyers tend to purchase the lower quartile homes that most rental stock typifies it also reduces rental stock.

In the past 10 years, owner-occupier households have grown by 43,000 or 4%. This compares to the growth in the number of renter households by 120,000 or 25%.

While the past decade or so has been great for residential property investment returns, current market conditions mean that the next decade is unlikely to be as good. Despite record low interest rates, a range of factors such as increasing housing supply, lower net migration and (most importantly) affordability constraints limit the price growth that was experienced between 2013 and 2017 from repeating itself.

Aside from the moderating financial performance for mum and dad investors with a reduced prospect of capital gain and low yields, compliance costs are increasing. Healthy homes legislation requires all properties to be insulated and all kitchens and bathrooms to be ventilated. We have a reform of the Residential Tenancies Act 1986 currently going through Parliament. Some of the consultation topics were reducing the number of rent increases per annum, allowing for reasonable property modifications and for pets to be kept, and generally improving conditions for tenants.

Ring-fencing rental losses and 40% LVR rules further reduce the attractiveness of investment. Structural, cyclical, societal and political changes mean that rental property investment and rental stock is at risk of declining at a time when it is most needed.

Market conducive to BTR

These factors compound to form a market environment that is conducive to BTR. Purpose-built rental accommodation has been occurring for the past 20 years, but what we consider to be New Zealand's first true BTR products were only completed at the end of 2018. One of these developments is entirely leased to the NZ Defence Force for housing staff and comprises 49 terraced houses in Whenuapai. The second completed development features 47 BTR units pepper potted among market housing in a Hobsonville apartment building. Both developments were completed by New Ground Capital.

Building on this existing stock is a sizeable pipeline of 12 developments and over 500 units, 85% of which are in Auckland and all of which are suburban. Most of these are relatively small-scale projects, and of the seven buildings that



Outdoor common area at The Dalton in Washington, US. The building is 14 levels with 270 units, ground floor retail and two levels of basement carparking. The Dalton is part of a larger mixed use project with office and retail alongside residential

are under construction the BTR component of each is less than 100 units. However, there are larger schemes in the planning phase, and some big industry names looking closely at the sector. It is likely that the pipeline will have at least doubled by this time next year.

The tax issue

New Zealand's tax system is reasonably straightforward. There are two forms of taxation: income tax, and goods and services tax (GST). Unlike other countries, New Zealand does not have stamp duty, death duty, asset tax or capital gains tax (unless that capital gain is deemed to be income). The absence of these taxes helps to keep our system free of some of the complexities that other countries face.

Demonstrating the simplicity of our tax system is the rule that almost every good and service in New Zealand has 15% GST applied to it. However, residential dwellings are treated as exempt supplies and are not subject to GST. This is a blanket rule that has allowed residential dwellings to be bought and sold without GST being applied.

The tax treatment is different to commercial dwellings, which are bought and sold as price plus GST.

Our tax system exists in a way that created a structurally unfair tax treatment of BTR compared to other residential and commercial/industrial developments. This issue is one of the barriers to the establishment of the sector.

Government intervention is required to level the playing field and eliminate the GST leakage that occurs through BTR development, and this disadvantage occurs in Australia as well as New Zealand. The fact that BTR development is still occurring, even with the unfair tax treatment, demonstrates the strength of the fundamental growth drivers that exist in each market. This shows that while tax is a barrier and hampers the establishment and growth of the sector, it is not stopping it in its tracks.

Construction costs

Although the tax issue is one that applies to the BTR sector only, the construction cost issue is a wider one affecting all types



The waterfalls patio at Vector, one of several mixed use buildings that were developed in a transit-oriented development around Orenco Station in Oregon, US. The buildings are part of the Platform District project

The extra amenities of some BTR buildings have to be balanced between the construction cost of their provision and their recoverability in rental premiums.

of property development in New Zealand. A standard Auckland apartment development that might have been priced at \$2,800 per sqm to build five years ago is now likely to be in excess of \$5,000 per sqm to build. The impact of construction cost inflation has caused retail apartment prices to increase in a similar way, pushing new build apartments into higher price brackets where there are fewer buyers.

The consequences have been far reaching, but the most noticeable is the decline in pre-sale volumes and an increase in project abandonments where projects were pre-sold at rates that were proven to be unfeasible once construction quotes were in. There have been some positive impacts, such as the emergence of the walk-up apartment typology, which is generally cheaper and faster to build than a traditional apartment building.

Just like how rapid construction cost inflation has reduced BTS project feasibility, it has negatively impacted that of BTR development. Construction costs are not necessarily cheaper for BTR, and certainly some components of BTR construction

could be more expensive than BTS. However, the extra amenities of some BTR buildings have to be balanced between the construction cost of their provision and their recoverability in rental premiums.

How can it be made to work?

Property people understand that New Zealanders have a need for differentiated rental product, and that there are fundamental demand drivers in place to support BTR in our unique local context. However, as is always the case for a new and emerging sector there is inevitable uncertainty about how it can be made to work on a commercial basis.

Questions that people often ask include:

- Is there an opportunity?
- Is it feasible?
- Is it scalable?

The answer to all of these is yes. We only have to look across the ditch to see how the Australian BTR pipeline has grown in just a short timeframe, with the UK growth experience even more impressive. The important point though is that the BTR asset class is not a short-term in-and-out vehicle for profit. It is a long-term investment that provides stable low-risk returns while meeting the social objectives of providing quality rental housing for Kiwi families 🏡



Tamba Carleton is a Senior Research Analyst at CBRE based in Auckland.
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Rutland Mills – the conversion of several key derelict warehouse buildings into a new mixed use creative quarter in Wakefield in the UK. Source: Hawkins/Brown



The **ENGLISH** and **NEW ZEALAND** planning systems

A comparison



CARLY HINDE

Following a recent move from England to New Zealand, Carly Hinde, a Senior Planner at Align in Auckland, looks at these respective planning systems and asks what lessons can be learnt to help enable increased developer growth in both countries.

The planning process

The planning process can often be a complex and challenging, but ultimately rewarding, process that developers and landowners need to go through to obtain consent and progress with their schemes. There can be a range of work: undertaking initial site appraisals for landowners to determine the likelihood of obtaining permission; submitting Development Plan representations and undertaking site promotion works; and coordination of architects, project teams, Council officers, consultees and key stakeholders throughout the application and appeal process to progress and obtain consent for schemes. While there are ways to help deal with this, hiring good planning consultants can help, and I have found that this is a common theme for both the English and New Zealand systems.

There are also key differences I have experienced since moving to New Zealand. This reflects my work in the private consultancy sector and the variety of schemes I dealt with in England, ranging in scale and type and including comprehensive city centre developments, residential, commercial and retail/leisure, logistics and urban regeneration projects. While the overall process is markedly different, most new development and alterations to existing buildings need to obtain planning consent before starting works.

The New Zealand system classifies activities into six primary categories (permitted, controlled, restricted discretionary, discretionary, non-complying and prohibited), which determine:

- Whether land use and subdivision consent is required
- The considerations Councils need to take into account when making a resource consent application decision
- Whether the consent, must, may or may not be granted.

These categories are also heavily influenced by the extensive land use zoning system and the detailed standards and rules (e.g. building height, maximum impervious areas

and outdoor living space) that apply within each zone.

In contrast, the English system does not use any of these categories and subdivision is not part of the planning process. The assessment criteria for schemes is reviewed against every Council's Development Plan and it is a 'material' consideration (i.e. the matters which should be considered) when determining each application.

The Development Plans in England are not as specific or restrictive as in New Zealand. For example, within the Manchester Core Strategy (effectively the Development Plan for the city), the City Centre policy states, *inter alia*, that development in the zone 'will generally be high density' and tall buildings should be an 'appropriate scale, massing and height ...'. This flexibility can help to encourage more innovative schemes that are not restricted to meet set zone standards.

The National Planning Policy Framework is also a material consideration in determining planning applications and it sets out the national economic, social and environmental guidance. It includes a 'presumption in favour of sustainable development', and requires each Council to demonstrate that there is a supply and mix of 'deliverable' land to meet the planned housing requirement in their local area over the next five years.

Clearly, Council officers need to weigh up various factors when determining whether to approve an application, although in England there is more discretion as the policies are subject to their own interpretation. Applicants, and their planning consultants, therefore need to craft a clear justification about why a development is appropriate when weighed up against the Development Plan and other material considerations.

In contrast, in New Zealand the Council needs to assess whether any infringements to the standards are acceptable, although recently adopted Council District and Regional Plans have sought to reintroduce a greater degree of flexibility. For example, in Auckland's Unitary Plan, higher-density



Top: Doncaster Sheffield Airport – a 300,000 m² logistics and commercial warehouse scheme. Source: Fletcher Rae Architects

Middle: New Zealand housing development – a scheme for 13 new dwellings in Epsom, Auckland. Source: Align

Bottom: Workington housing development – a large-scale residential scheme in the UK. Source: Turley



schemes only need to demonstrate compliance with a reduced number of 'core standards'. These changes, alongside other wider legislative changes, have tried to reduce the complexity of resource consents and provide more certainty for applicants.

Council processes

Most Council departments in England provide in-house services and very little work is outsourced to private consultancies. This also links to other key fundamental differences between both planning systems regarding the cost, timescales, consultation and the notification process.

Planning application fees in England are fixed, paid at the submission of the application, and are set nationally. The fees are usually based on the total site area, the number of houses (a full application for a new house will cost around NZD\$860 per house for up to 50 dwellings), or the amount of new floorspace that is proposed. In contrast, the costs vary by Council in New Zealand and usually only an initial deposit is submitted by the applicant. As a result, fees can quickly escalate, because





as the project progresses and issues arise these are charged on an hourly fee basis.

In England there are statutory determination time limits for applications, namely, eight weeks for most applications, and increasing to 13 weeks for ‘major’ development schemes and 16 weeks for schemes that are subject to an Environmental Impact Assessment. Within this, there is a deadline of 21 days for receiving consultation responses from statutory consultees and other interested parties, including neighbouring properties.

The vast majority of applications in England are publicised via a site notice. All properties within close proximity to the development are notified, via letter, about the application and are advised that they are able to provide any comments within the 21-day period.

In contrast, in New Zealand the Resource Management Act establishes tighter deadlines and requires that non-notified applications should be determined within 20 working days. The application is not publicised in this instance, and neighbouring properties may not be aware of a scheme

unless the applicant has actively notified their neighbour to obtain their approval for any standard infringements.

Emerging themes

There are a number of emerging themes common to both England and New Zealand, as set out below.

Housing

The importance of developing sufficient new houses is apparent in both planning systems. Another common theme in both countries is a lack of affordable homes. However, there is a particular emphasis in England on supporting higher-density development on brownfield (previously developed) sites. The use of housing land supply targets, which require Councils to demonstrate that they have a five-year supply of deliverable sites for new housing, is also a key driver of growth in this area.

In England, the concept of building new housing on the rear lots and gardens of existing properties (known as ‘garden grabbing’) is generally resisted by local Councils. This is markedly different to

New Zealand where, for example, the emphasis within Auckland’s Mixed Housing Suburban and Urban Zones is for up to three dwellings per site to be a Permitted Activity (subject to complying with certain standards).

Culture and heritage

There is an abundance of heritage buildings within England that are statutorily protected and that require special consideration as part of the planning process, while in New Zealand there are less of these buildings. There are, however, additional cultural factors to consider here, notably the potential significance of sites to Maori.

Most schemes I was involved with in England sought to retain the original historic features, many of which were under-utilised and vacant, to generate new activities. For example, I acted as junior planning coordinator to obtain permission for one of the largest planning applications in the UK and the biggest riverside regeneration project in Europe. The NZD\$10.6 billion Liverpool Waters scheme, which has a 30-year delivery schedule, comprises works to a

Workington housing development – a large-scale residential scheme in the UK. Source: Turley



series of derelict waterfront industrial dock spaces within a designated UNESCO World Heritage Site for several 50-storey towers, approximately 20,000 dwellings and an international cruise liner terminal. I was also involved in the planning approval for the mixed use regeneration scheme at Rutland Mills (comprising the renovation of a series of derelict warehouse buildings in Wakefield) into a new creative cultural quarter.

Other similar schemes in New Zealand include the extensive redevelopment of the Wynyard Quarter in Auckland, to create a new waterfront neighbourhood, and the conversion works to Dunedin's Warehouse Precinct. The process for dealing with these types of heritage matters can be fascinating and complex, often requiring detailed stakeholder engagement to progress a scheme which is appropriate and acceptable to key parties.

Sustainable design and growth

The focus on developing high-quality, well-designed and sustainable schemes is clearly a key aspiration of both planning systems, although the actual process for determining what is 'suitable' and if it will be deemed acceptable for an area is very different. The variations in the design of buildings along the New Zealand streetscene, for example, are highly noticeable and there can often be no discernible pattern (even within large developments) by the same architect.

This can help add to a varied streetscene, and perhaps reflects the culture of New Zealanders who want their homes to be individual and to reflect their own identity, rather than living in the same type

and style of house as their neighbours. In contrast, new development in England often tries to be more reflective of the existing environment and the site's surroundings regarding design and building materials, with large-scale developers tending to adopt a 'standard' format across their schemes.

Summary

As outlined above, there are a number of key variations in both planning systems which affect developer progress, timescales and success. I believe that the English system provides greater certainty for developers as projects can be more efficiently budgeted, although this needs to be weighed up against the longer determination timescales and the potential issue of dealing with neighbours' comments.

I prefer the English system's Development Plan pro-developer stance, although the New Zealand system and timetable for processing applications is clearly beneficial for my clients. Both systems, however, require strong leadership and project team coordination to successfully progress schemes and obtain consent.

The role of a planning consultant

Not all architects or landowners choose to appoint planning consultants, either on cost grounds or if the project is (or appears to be) relatively small-scale and straightforward. However, I have found (both as part of the New Zealand and English planning systems) that an experienced planning consultant plays a critical role,

particularly for more contentious and complex development proposals. These more substantial schemes often require specialist input, notably during the initial phase of the project, and the cost of getting it wrong (both in terms of time and money) can be significant to the client.

The due diligence checks and site appraisals that planning consultants undertake at the start of a project are critical to identify 'show stoppers' and this can influence the overall consenting strategy for the land. Planning consultants play an integral role within the development team, and local knowledge and good working relationships with Council officers are crucial, especially when agreeing the scope of work during the pre-application stage 🐾



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Attendees at the recent PROMINZ Conference in Auckland

RAISING INDUSTRY STANDARDS

PROMINZ Conference

August 2019

There was fantastic feedback from the first-ever PROMINZ (Property Managers Institute of New Zealand) Conference held in Auckland during late August.

Close to 80 residential property managers from companies – big and small – attended the event, with more than 90% reporting that the two-day event added to their understanding of the industry. In anyone's book, that is a great result and good for the industry.

As regular readers will know, the theme of the conference was *Preparing for Regulation*. It featured speakers including tenancy services representatives, the Privacy Commissioner, property management mentors, politicians, and a programme packed with industry experts.

Along with ample networking opportunities, the event also included the first-ever PROMINZ Awards.

It is expected that these awards will be part of the PINZ national conference and formal awards presentations in 2020.

This year two awards were up for grabs – the Rising Star Award and the Residential Property Manager of the Year.

Along with ample networking opportunities, the event also included the first-ever PROMINZ Awards.

Rising Star Award

The first award was established to give recent entrants to the industry the chance to be recognised for their achievements, despite the shorter time in their roles. The Rising Star Award was available to entrants with less than two years' industry experience.

Judges described the standard of entries as outstanding and found it hard to decide on a winner.

The 2019 Rising Star Award winner was:

- **Janice O'Neill – Nice Place Property Management, Wellington.**

The runners up were:

- Courtney Belgrave – Property Scouts, New Plymouth
- Anna Lovett – Pukeko Rental Managers, Gisborne
- Ani Rauwhare – Property Scouts, Manukau.

Property Manager of the Year Award

The Property Manager of the Year Award celebrates property managers who have already shown a commitment to setting themselves above the industry norm by becoming a member of PROMINZ.

Entrants were expected to demonstrate excellence in property management, customer service to tenants and owners, sturdy portfolio statistics, as well as teaching and support in the industry.

The winner, **Vicky Harris of Pukeko Rental Managers**, has many years of management experience. She runs her own successful company, and is heavily involved in the industry at a regional and national level.

One of the judges said, 'Her attitude and practices are outstanding – and she's a fantastic example of what we should expect from the sector.' 🙌



Janice O'Neill and Vicky Harris at the PROMINZ Awards

- ✓ SEALANT AND CRACK REPAIRS (APPROVED APPLICATOR)
- ✓ STEEL REFINISHING AND VAPOR (DUSTLESS) BLASTING
- ✓ SURVEYS, INSPECTIONS AND CONDITION REPORTS
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'It is interesting how the road you have travelled prepares you for the road ahead,' says David.

Supermarket management

At 15 years old David Pearse was keen to get out of school into the real world. He took a job at Triplow's New World supermarket in Havelock North. His parents had owned a local corner store, so grocery was familiar to him. When at 17 the owner went into hospital for neck surgery he found himself as Assistant Manager reporting to 'Harry' at the Hastings hospital. Either good luck or good fortune, the supermarket had a record turnover while the owner was away.

David notes that at that time he was the only non-smoker employed at the supermarket. When he was 18 it was sold to a new owner from New Plymouth and he was told they could not afford him. David then bought a local dairy, but quickly felt it lacked challenge, so put his parents in to manage it and went to the new Flaxmere New World as the Grocery Manager. This was the start of managing New World supermarkets in Turangi, Napier and Hastings.

Local body politics

When David started working in supermarkets they were open five days a week, and at 28 years of age it was big news that they were to open on Sundays. He decided to have a crack at local body politics and was elected to the Hastings City Council in 1986 as the youngest City Councillor at that time. It was a period when everyone seemed to be

heading for Australia and the saying was 'last one out – turn the lights off'.

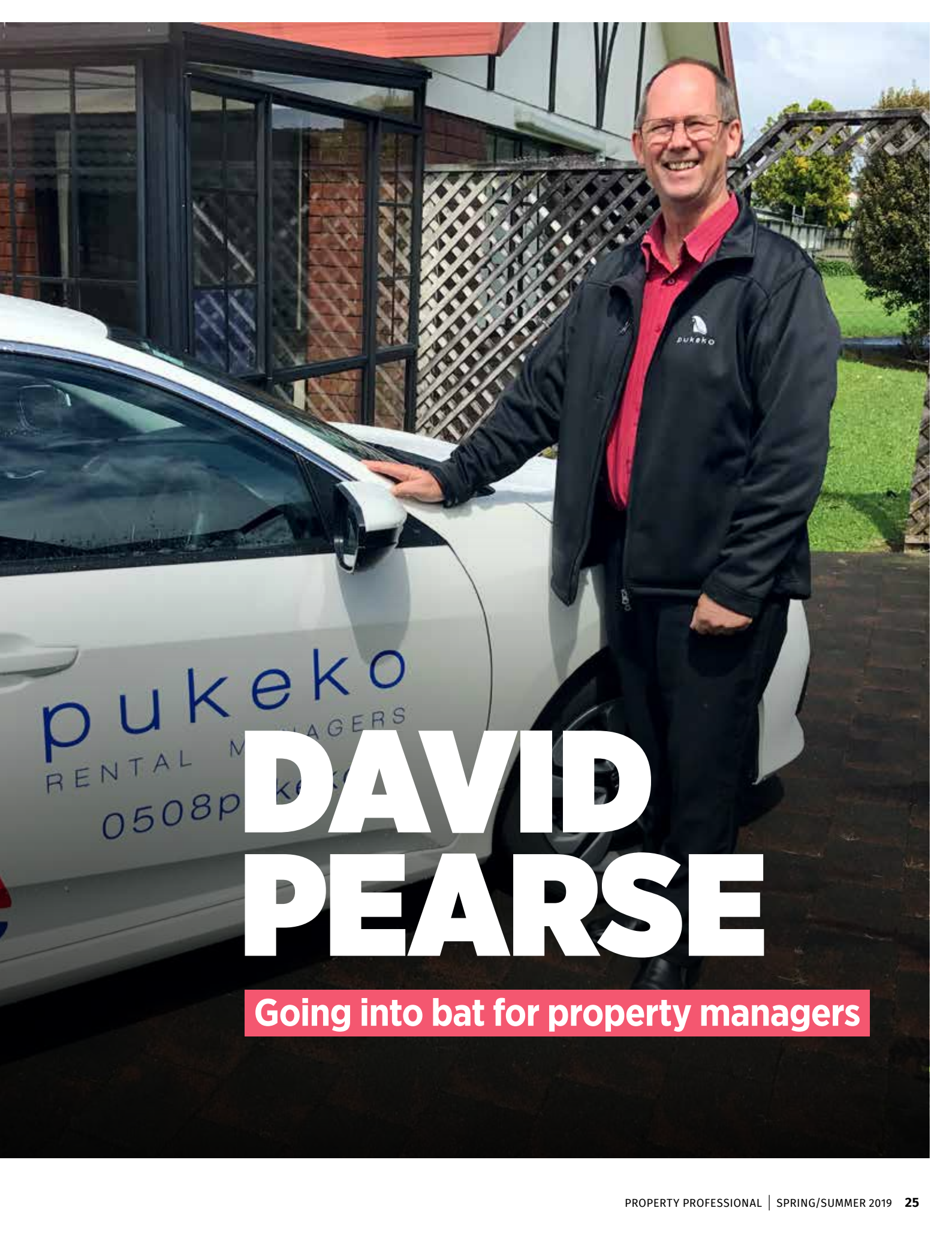
To add to the situation the large Whakatu Meat processing plant closed its doors. The City Council took up the challenge and as a team became a very progressive Council. David had roles as Acting Chairman of the Finance & Management Committee and was Committee Chairman for the new City Library. A highlight was his first overseas trip to Guilin in China as a delegation to the sister city.

In 1989, the Government amalgamated the city, borough and county into the Hastings District Council. David did not enjoy the next three years where elected members jockeyed to get more of the cake for their areas and he saw the bad side of politics.

He decided to get into real estate as a sales consultant, but after three years enjoyed the challenge of management and lifting the performance of low-performing offices more than sales. As a Hastings Sales Manager looking after the Havelock and Hastings offices of Tremain Real Estate, the company won Company of the Year for two years running and Hastings won Office of the Year for the Professionals.

David was then recruited as the administrator of a large Hawke's Bay Church with sports centre and preschool and focused on its financial stability. One of the benefits was visiting many overseas countries.





DAVID PEARSE

Going into bat for property managers

Residential property management

By 46, his career had been about the financial benefit of others but he decided after reading *Rich Dad-Poor Dad* that he wanted to be in business for himself. After looking at many opportunities, David reflected on his time in real estate and realised there was a need for a quality residential property management service.

So, in 2004 he became a franchisee and pioneered a specialist property management franchise in Hawke's Bay. In 2008, he sold the franchise as two separate offices with a portfolio of 360 managements.

David was expecting the government to regulate residential property management in 2010 with the Residential Tenancies Amendment Act 2010, but was surprised that property management was not thrown in with real estate like in Australia.

David launched a boutique residential property management business called Pukeko Rental Managers, which has grown in momentum to 23 around the country. They have adopted the mantra: 'We don't want to be the biggest – just the best!'

David launched a boutique residential property management business called Pukeko Rental Managers, which has grown in momentum to 23 around the country.

Regulation of property industry

David then joined IPMA – a body supporting the interests of non-real estate specialist property managers – and then the IPMA Committee. He heard at a meeting with Phil Twyford in 2018 that it was the goal of

the Labour-led Government to review the Residential Tenancies Act at the end of 2019 and in their next term look at regulating the industry.

IPMA decided to join with the Property Institute and changed the name to PROMINZ, and to get ready for regulation the theme of the recent conference was *Preparing for Regulation*. At a recent meeting with Associate Minister Kris Faafoi it was apparent that the same government agenda is still in place.

David feels that the practice of rolling out legislative changes for landlords was an exercise in futility, as 66% of rentals are managed by private landlords and MBIE do not know who they. For him, any real regulation will require the registration of all landlords so that MBIE know who they are and the landlords know what their responsibilities are.

He says this is nothing new as Wales have done this with their Rent Smart Wales – see www.rentsmartwales.gov.wales. David believes it is very smart of the Welsh as now they can introduce new regulation and know who to educate on the changes. The General Manager of Tenancy Services at MBIE continually advocates the need for landlords to treat rental properties as a business, and he supports him in this.

PROMINZ supports the regulation of the industry, and David says you do not have to be a rocket scientist to see that the industry is broken. The debate is about how it is regulated, and a quick fix will not do.

Training for property managers

David said that he wants to see PROMINZ go into bat for property managers. The most recent statistics from the real estate sector show that the average length of employment for real estate property managers is nine months. Property managers say that the cause is lack of training, but he feels the root of the problem is greed and the amount of properties real estate companies expect them to care for. They simply burn them out and throw them away.

David notes that when he was a real estate manager he was taught at conferences that there were two reasons

The most recent statistics from the real estate sector show that the average length of employment for real estate property managers is nine months.

for real estate offices to have a property management division. One was to provide a source of income to keep their offices open when property sales were low, and the other goal was to sell 10% per year because they make 10 times more money selling properties than managing them.

He said a clear conflict of interest exists with market rental appraisals, where salespeople pressure for high figures to assist with the sale of the property by purchases of investment property. Any reform of the Residential Tenancies Act should help with independent rental assessments.

David believes that while it is understandable that the real estate focus is on sales, property management is all about service. However, at a recent property management conference in Brisbane he noted it was all about sales and business development managers. There was hardly a property manager there, which is why any regulation should be focused on developing professional property managers and having their own association.

He says that PROMINZ will be unashamedly putting its hand up and stepping up to the crease to bat for property managers. As President he will do all he can to advocate on behalf of property managers and ensure everything is in place for any government that wants a real solution to clean up the industry 🍌



CHANGING LAND USE

The role of forestry in fighting climate change

MARK BAKER-JONES AND RACHAEL WITNEY

This article examines the role that forestry will have in the climate change space as New Zealand moves towards a net zero emissions economy. It discusses three initiatives the Government has introduced which are intended to make forestry a more attractive land use option for landholders. The article also highlights some of the impacts, opportunities and challenges that a change in land use to forestry will bring.

Converting land use to forestry – plant more trees

Forestry must play a key role in New Zealand's approach to addressing climate change, as it is currently the single viable way to remove carbon dioxide from the atmosphere. Carbon dioxide removal is an essential part of balancing the 'net zero' equation.

By achieving that balance, we aim to limit the atmosphere-warming greenhouse gases to a level that enables climate change impacts to be in any way manageable.

With the climate imperatives we face, the challenge to New Zealand is to reconsider the incentives that drive how our land is being used and managed.

The Zero Carbon Bill will be the most important top-down tool we have in transitioning to a zero carbon economy; it aims to enable a transformation in the way in which our economy operates.

The Climate Change Response (Zero Carbon) Amendment Bill (ZCB) was introduced into Parliament earlier this year and will provide a policy framework for New Zealand to transition into a zero carbon economy. This article focuses on the following three recent initiatives implemented by the Government and local government, all of which relate to encouraging the planting of more trees:

- the One Billion Trees Programme, and tree planting grants and funding for partnerships
- changes to the New Zealand Emissions Trading Scheme (ETS) to de-risk forestry and provide greater financial incentives to plant forests
- Regional Council funding and support to address erosion-prone land.

All three initiatives make it clear that the goal is for more trees to be planted in order for us to meet New Zealand's long-term net zero carbon target, as well as supporting other policy initiatives.

Zero Carbon Bill

The forestry initiatives must be understood in the context of the ZCB. When passed into legislation, the ZCB will establish a plan for tackling climate change in New Zealand. The ZCB will be the most important top-down tool we have in transitioning to a zero carbon economy; it aims to enable a transformation in the way in which our economy operates.

The ZCB is an amendment to the current Climate Change Response Act 2002 (CCRA) – New Zealand's current legal framework created to assist this country in meeting its international obligations under the United Nations Framework Convention on Climate

Change. It establishes an ETS regime that puts a price on greenhouse gas emissions, and that is intended to create a financial incentive for consumers and emitters to reduce their greenhouse gases.

The ZCB will overlay the ETS with a much broader all-of-government/all-of-economy framework by which New Zealand can develop and implement clear and stable climate change policies that contribute to the global effort to limit global average temperature increases to 1.5°C above pre-industrial levels (generally the period between 1850 and 1900). The ZCB aims to:

- reduce gross emissions of biogenic methane to within a range of 24% to 47% below 2017 levels by 2050; and
- reduce net emissions of all other greenhouse gases to zero by 2050.

The ZCB was introduced to the House on 8 May 2019 and its first reading took place on 21 May 2019. The ZCB is currently being considered by the Environment Select Committee, whose report back to Government is expected on 21 October 2019. The Government intends to pass the ZCB into law this year.

Opportunities for landholders

The Government has sent a clear message – reduce greenhouse gases and, where this is not possible, offset them. With its ability to remove carbon dioxide from the atmosphere, forestry will be vital in meeting emissions budgets and the 2050 net zero target.

It is clear from recent initiatives implemented by the Government that there are opportunities for landholders to maximise earnings from their land by

converting suitable land (e.g. marginal or less productive land) into forests. These opportunities are evident from the three initiatives summarised below.

One Billion Trees Programme

The Government has set a goal to plant one billion trees by 2028 (with two-thirds of these being native trees) and is providing tree planting grants to landholders, particularly farmers. This programme combines environmental, social and regional economic growth agendas.

The Government has put aside \$240 million in funding to landholders, organisations and community groups through this grant, and is aiming to lower planting barriers currently faced by landholders and to improve incentives to support the planting of 'the right trees, in the right place, for the right purpose'. To date, it has invested \$194 million of the fund.

■ Direct grants to landholders

There are four categories of direct grants available to landholders:

- native planting – \$4,000/ha to plant a native forest (includes native forest restoration, native timber production and riparian planting)
- native reversion – \$1,000/ha for the reversion of land to permanent native forest cover
- mānuka/kānuka planting – \$1,800/ha to plant only mānuka or kānuka
- exotic planting – \$1,500/ha to plant an exotic forest. Must have a



minimum plantation area of 5 ha and a maximum plantation area of 300 ha in one year, but Te Uru Rākau will consider larger applications on a case-by-case basis (note landholders with this type of planting cannot join the ETS for six years).

■ **Partnership funding**

This funding is also available for organisations and community groups who support tree planting and programmes that improve how trees are grown. Eligible projects include scientific or technological innovations, workforce development, and information and advice for landholders or catchment restoration projects. Generally, each party contributes 50% of the cost towards the project.

Changes to the ETS

Since 2008, New Zealand's central climate policy instrument to reduce greenhouse gas emissions has been the ETS. However, the ETS has not effectively delivered on this policy to date. The ETS is intended to drive a net reduction in greenhouse gases by making those who must participate in it (like fuel companies) pay for the greenhouse gases that will come from their products.

Participants pay by acquiring and surrendering New Zealand Units (NZUs), each representing 1 tonne of carbon dioxide (or equivalent, for other greenhouse gases), created by the Government including by allocating them to some forestry participants in recognition of the carbon dioxide that is removed from the atmosphere by trees. However, the financial risk in having to repay or surrender units at harvest for those post-1989 forest landholders who participate in the ETS has meant that many NZUs remain 'banked' rather than being funnelled through the market.

A review of the ETS undertaken by the Government in 2017 identified that the scheme could be more effective in supporting forestry participants. Notable intended changes to the ETS to be enacted by mid-2020 include:

- putting a cap on the total number of NZUs that will be created in the ETS and introducing the auctioning of NZUs
- the phasing out of the \$25 fixed price option (FPO) and replacing it with a cost containment reserve (CCR) through the auctioning of NZUs – a mechanism that will introduce a reserve of NZUs that the Government will set aside and sell only if the price ceiling is reached. This means that the price of NZUs can now rise to a level more likely to be attractive to forestry and drive changes in emissions behaviour

A review of the ETS undertaken by the Government in 2017 identified that the scheme could be more effective in supporting forestry participants.



- enabling the introduction of a price floor through an auction reserve price (if needed) to manage extremely low prices, thus providing long-term confidence for low-emissions investments such as forestry
- the introduction of a mechanism for recognising emissions mitigation from harvested wood products to incentivise the processing sector to produce more long-lived wood products
- the adoption of a simplified 'averaging accounting approach' for forestry where eligible landholders will receive NZUs for new forest growth up until their forest reaches the average age of that specific forest. No NZUs will need to be repaid on harvest so long as the land use is not changed.

With the proposed changes making forestry more attractive, the changes to the ETS create a financial incentive for businesses and landholders to invest in technologies and practices that result in fewer emissions.

Higher carbon prices may encourage planting on less productive or un-productive farmland and the conversion of marginal land. With the increase in forest land, it is also certain that employment opportunities will increase as dependent industries develop (e.g. wood processing, milling etc). Carbon pricing is only one aspect of the decision on whether to go into forestry, and a full consideration of the outlook for timber sales will also need to be part of any assessment.

Regional Council funding for erosion-prone land

The Hill Country Erosion Fund (HCEF) is a partnership between the Ministry for Primary Industries, Regional Councils, unitary authorities and landholders. The fund has approved nearly \$36 million to support erosion control programmes across the country between 2019 and 2023.

The fund contributes to the Government's One Billion Trees programme and encourages Regional Councils and landholders to work together to identify

solutions to land that has been identified as being erosion-prone, and then develop and implement appropriate treatment plans and land management practices in place, such as tree planting. The HCEF issues funding every four years and currently supports 12 programmes around New Zealand. Landholders can contact their Council's land management officers to find out about current programmes in their area.

Challenges in changing land use

These initiatives are intended to result in forestry becoming a more feasible land use option. Implementing changes to existing land use (e.g. marginal farmland) has the potential to significantly increase New Zealand's carbon storage capacity. This country's largest land use is pasture, and establishing new plantations and native forests on land that is currently under pasture or scrub could sequester millions more tonnes of carbon.

Landcare Research New Zealand in its Land Cover Database v4.1 has identified that

pasture, or farm grassland, occupies 39% of New Zealand's land (10.5 million ha). Once the ZCB has passed into legislation, conversion of some of the land that is currently proving to be only marginally profitable for sheep and beef may become more attractive. However, this also brings more challenges and implications:

■ Rising land prices

The incentives to store carbon in forests will be limited by the availability of suitable land, and increasing demand and rising land prices.

■ Land use flexibility

The long-term economics and implications of a change in land use will need to be assessed by landholders considering moving towards forestry. Planting trees is not a short-term option, which may mean that there is a reluctance by many farmers/landholders to change land use.

As noted in the report of the Parliamentary Commissioner for the Environment 'Farms, forests and fossil fuels: the next great landscape transformation?', New Zealand is not short of land but making that land available for storing carbon will limit land use options. Given the uncertainty climate change poses for future land use, retaining land use flexibility will be important.

■ Short and long-term strategies

Under current practices, most plantation forests are grown on rotations of 25 to 30 years with the aim of maximising returns from timber. Harvested wood products are simply temporary stores of carbon. When a mature tree is harvested, the carbon stored in mature trees does not instantly return to the atmosphere. The timing on exactly when carbon that is stored in a tree returns to the atmosphere depends on what the timber is used for following harvest.

Carbon held in timber that is used for building purposes may remain out

of the atmosphere for a long time. However, carbon held in timber that is then turned into paper will return to the atmosphere within a matter of months. Going forward, landholders will need to weigh up whether suitable land is developed for rotational plantation forestry (such as pine) for wood production, or whether more permanent native forests (which sequester greater amounts but take longer to reach maximum capacity) are established for sequestration.

Landholders (such as Māori landholders) with long-term planning horizons (100 years plus) may be more inclined to plant natives given the long-term benefits, whereas those who look to maximising profits in shorter time periods may look towards pine plantations. New Zealand natives are in general slower growing than *Pinus radiata*, and so sequester carbon dioxide more slowly. Therefore, pine forests can provide landholders with the ability to earn NZUs quicker, but natives can store more carbon dioxide over time.

Say 'timber!' to carbon emissions

The ZCB and the changes to the ETS that have been signalled, when passed into legislation will transform not only the way in which the primary industries operate in New Zealand, but also the way in which we use one of our most precious assets – our land. The ZCB will bring into effect a target to reduce all greenhouse gases, including long-lived greenhouse gases, to zero by 2050.

This is a significant target and will require significant measures. Several of the Government's proposed initiatives incentivise forestry and we expect to see the opportunity for all types of landholders – foresters, farmers and smaller lot owners – to benefit from a growth in the forestry sector in coming years.

Acknowledgements

A thank you to Nick Wilson, Partner in Simpson Grierson's Commercial Property

Group and Joanna Lim, Senior Associate in Simpson Grierson's Corporate and Commercial Group, for their contributions to this article.

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 on particular matters 🐼



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SMALL PROPERTY BUSINESSES

**What happens when
an owner/director
passes away?**

Many, if not most, small businesses (including property-related) in New Zealand are heavily exposed to a single point of failure. That failure is the lack of a succession strategy and resources should the owner of the company die unexpectedly. This article serves to highlight the risks most small enterprises carry and the methods they can adopt to negate or minimise these.

VAUGHAN WILSON

Lesson from *Star Wars*

The year was 1977 and I was living the perfect life for a young New Zealander. We had two TV channels, school holidays that seemed to last forever in summer, affordable ice blocks, pick 'n' mix lollies and something called *Jaws*. I was too young to go see it, but my Dad bought me the poster for my bedroom wall. It scared the hell out of me every night. Then in May of that year all of our lives changed as *Star Wars* was released. Of course, back then we just thought it was a cool movie. And quite possibly it was the first movie to make movie merchandising an art form.

The penultimate scene in the film has our hero Luke Skywalker being thrust into the intensely responsible role of preventing the decimation of every single life form on a planet Tatooine. To do this he has to shoot a proton torpedo into a two metre wide 'thermal exhaust port' (TEP), which leads directly to the Death Star's reactor system. Luke managed to launch this torpedo into the TEP, whereby it travels down to the reactor and explodes, causing the instant destruction of the 'bad guys', and the day is saved.

I take us down this pathway of memory lane, not to explicate my knowledge of *Star Wars*, but to explain how the 'single point of failure' can annihilate not only the Death Star but many of this country's small property businesses, known as small enterprises. New Zealand has over 515,000 business enterprises, of which 97% are deemed small, that is to say they have fewer than 20 staff. Collectively these small enterprises employ almost 600,000 people, around 30% of New Zealand's 2.1 million workforce. Most of these do not have their own IT department, may or may not have a finance section, and in almost all cases they are privately owned (some are subsidiaries of large companies).

As well as being property businesses, these companies/enterprises could be your

New Zealand has over 515,000 business enterprises, of which 97% are deemed small, that is to say they have fewer than 20 staff. Collectively these small enterprises employ almost 600,000 people.

local dairy, your plumber, the start up IT company owned by your brother-in-law etc. At some time in their history Xero, Trade Me, Fulton Hogan and Peter Jackson's Weta Workshop have all been a small enterprise in New Zealand. Of course, all these companies have grown in size, stature and in some cases ownership structure, and they now have large workforces whose job is to ensure the continued existence of the enterprise.

Effect of death of owners/directors

In many cases these small enterprises are owned by one or two people, often husband and wife. They often travel together, heightening the chances of both dying in a tragic accident or similar. There have been numerous examples of companies (large and small) that have fallen on hard times because the owners/directors have come to an untimely end. For instance:

- The Australian mining company Sundance lost its six directors and CEO in 2010 when their plane crashed in dense jungle near the border of Cameroon and Congo, a remote mountainous area in central Africa. The company managed to survive – just, utilising the skills of a retired chairman
- In 1987, another Australian mining firm also lost their entire Board in a crash near Kalgoorlie in Australia and this company did not survive. They had considerable debt and following the accident no-one stepped in to manage the crisis. Eventually the administrators were called in and five companies were liquidated, five mines were closed, 1,600 people lost their jobs and 7,000 investors lost their entire investment
- In 2003, seven senior staff from New Zealand's Lincoln-based Crown Research Institute (CRI) died when an Air Adventure's *Piper Chieftain* plane crashed in foggy weather on approach to Christchurch airport. The CRI suffered from an instant loss of a significant collective of experience that was virtually impossible to replace in the short term. Fortunately, not every senior staff member was on the plane and the organisation survived
- Multiple other failures of small enterprises are not reported in the mainstream media due to the ownership being private and the ensuing failure being kept confidential by the grieving family. However, I am aware of over 10 cases of private company owners dying in events such as the Christchurch earthquake, car accidents, medical events etc. This leaves their loved ones not only to grieve, but to somehow navigate through a minefield of unfamiliar businesses, banks, debt and the potential for business failure.



Difficulties can arise for families when a person dies without leaving a will. When a sole director of a company dies intestate the complications and distress can have an even greater impact.

Research results

Many entrepreneurs look at their businesses as a way to build wealth for themselves and their families. But research from Britain and Norway in 2013 showed that if the founder dies, a firm typically suffers significant setbacks that affect the overall value of the firm.

The research was carried out by Professor Sascha O. Becker at the University of Warwick in the UK and Professor Hans K. Hvide at the University of Bergen in Norway. They studied 341 privately-held companies up to 10 years old where the majority owner and founder had died. The researchers compared these 341 companies to similar companies where the managing entrepreneur was living. The companies they studied were based in Norway where the government keeps very detailed records on businesses.

For the companies studied, overall sales dipped by 60% (on average) four years after a business owner's death and employment at the firms was down 17%. The survival rate of firms where the owner died two years afterwards was 20% lower than at similar firms where the owner was living. The chances of bankruptcy also increased at those firms where the owner had died.

'It seems founder-entrepreneurs are the "glue" that helps to hold a business together,' said Professor Becker, Deputy Director of the Centre for Competitive Advantage in the Global Economy (CAGE) in the Department of Economics at the University of Warwick in a release about the findings. 'We expected businesses that experienced the death of a founder-entrepreneur to have some kind of a dip in performance immediately after

the death owing to the upheaval, but we anticipated there would be a bounce-back. However, the results were quite surprising. Even four years after the death, most firms show no sign of recovering and the negative effect on performance appears to continue even further beyond that.'

Some other key findings from the research were:

- The younger the firm the larger the impact of the owner dying – one to two year-old firms saw the biggest effect if the owner died
- The companies whose owner was more highly educated saw more substantial declines than in the firms where the owner was less educated
- Family firms fared no differently than non-family owned firms.

Continuing to manage the company

Difficulties can arise for families when a person dies without leaving a will. When a sole director of a company dies intestate the complications and distress can have an even greater impact. Importantly, the death will usually leave the company without any person properly authorised to immediately manage the company.

In larger companies, if a director of a company dies the surviving directors can continue to manage the company. They may even make a temporary appointment, pending the appointment of a new director by the members (shareholders) of the company. Equally, if the sole shareholder of a company dies, the directors can continue to manage it until the beneficiaries under the will have the shares transferred to them.

Death can occur for any reason. When carrying out the research for this article there was a surprising number of wealthy people who had died prematurely taking part in somewhat risky activities such as those involving helicopters, planes, fast cars and boats/yachts. However, other scenarios also exist such as medical events (e.g. heart attack, natural disasters such as earthquakes, car accidents and terrorism/criminal activity etc).

How can small enterprises insulate themselves?

So what can small enterprises do to insulate themselves from financial ruin should something happen to the owner/director? How can they avoid a single point of failure?

1 If a company has more than owner or director, the most obvious thing would be for them not to travel with each other. This indeed may be difficult if they are also marital partners, but avoiding travelling and doing risky activities would limit the risk of all owners/directors being killed in the same event.

2 The small enterprise could organise regular health checks and activities such as gym memberships and healthy diets for the owners/directors. Of course, this type of approach would be good for all staff and small enterprises may choose to provide this strategy company-wide. The financial advantages such as fewer workdays lost to sickness would likely be greater than the cost of providing such a health strategy.

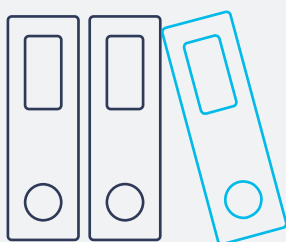
Often within small enterprises, the owner retains a large amount of the intellectual property about the enterprise. This needs to be disseminated to others at the firm to minimise disruption should it be required at short notice.



3 Distribution of the wisdom or the spread of wealth of knowledge of an enterprise and its operations to senior staff. Often within small enterprises, the owner retains a large amount of the intellectual property about the enterprise. This needs to be disseminated to others at the firm to minimise disruption should it be required at short notice.

4 Memorandum of succession – a formal document with a broad range of terms of reference encompassing everything someone may need to know to operate an enterprise should something happen to the owner/director. The Memorandum may encompass a large number of confidential items and would be a living document, continually updated, particularly with passwords as they change over time. The Memorandum would need to be kept highly confidential and in a secure location, preferably electronic for efficiency of updating and transference reasons.

A legal representative or similar (solicitor, external accountants, some other person of high repute) would need to own and manage this document should it ever be required. The Memorandum would likely include details about the company strategy,



bank account and access details, and wage payment information.

Items for the Memorandum could include:

- Passwords – we live in a world of passwords and these are required for all aspects of an enterprise's daily transactions including bank accounts, payroll services, databases, accounting packages, laptops etc. This should also include access codes and a list of pertinent URLs for access to the business.
 - Back-up plans with banks for authorised access, authorised transactions, and the emergency release of funds for wages or other reasons.
 - The names of third parties, either within the enterprise or external, who have been previously appointed in case of emergency and who have the experience and knowledge to operate the business during the time of crisis and until a permanent replacement can be sought.
 - A detailed Will determining key aspects about the enterprise, such as who ownership passes to if the owner dies (and their spouse who is often the key inheritor and who may also die in the same crisis).
 - A list of external professionals who can be relied on to assist in times of crisis and a list of former senior staff should they be required at short notice.
 - Company strategy for the enterprise – the goals and strategies of the business and what changes are required given the circumstances (meaning the Memorandum needs to be found)
 - A list of the tax responsibilities and details of the enterprise.
- A list of commercial contracts such as with clients, suppliers, leases etc that the enterprise relies on.
 - A list of existing clients, their contact details and other pertinent details.

Ensuring survival

A small property business' continued survival is constantly being tested. The economy, technology, exchange rates, legislative changes and competition can all make or break an enterprise under normal business environments. Survival can be truly tested if and when a single point of failure within the enterprise is enacted, often without notice. A small enterprise should therefore plan for this potential outcome to ensure survival under any condition, normal or dire.

So what is the single point of failure for your business? What is your thermal exhaust port? 🚀



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PROMINZ looks ahead

The Property Managers Institute of New Zealand (PROMINZ) held a very successful full-day strategy session in Wellington during mid-October. It was part of an exercise to determine the fundamental framework for what PROMINZ stands for, and to help set future work programmes for the Council and PINZ.

It was an exceedingly constructive meeting, with a number of important decisions made and projects launched. Members will start to see the results in the coming months. PINZ President Luke van den Broek was on hand to offer his advice, along with new PINZ CEO Viv Gurrey.



Plant & Machinery Conference in Auckland

About 30 of our Plant & Machinery Community members were on hand in Auckland last week for the big ICPME Conference, which was billed as a global forum for international valuation professionals.

About 130 people attended the event, which included a programme packed with speakers described as renowned world leaders in their valuation disciplines, representing major international and national valuation organisations and leading companies from all continents.



Ethics Roadshow draws hundreds

The Valuers Registration Board Ethics Roadshow has now wound up for another year. The event, hosted by Auckland University Professor Tim Dare, visited 10 locations throughout New Zealand from as far north as Whangarei to as far south as Gore and attracted nearly 600 participants.



Lincoln Mainland Seminar 2019

The South/Mid-Canterbury and Canterbury Westland branches organised another successful two-day Lincoln Mainland seminar in early September. The seminar is always well received, covers a wide range of property topics, and this year's event was again very well attended.

Software automation event

The new CEO of Property Brokers, Bill Highet, was the featured speaker at an event held by Fuji Xerox in Palmerston North recently to highlight opportunities for efficiency and cost savings through software automation.

REGIONAL NEWS

Bill's presentation focused on his company's experience using the Esker Accounts Payable Automation platform to streamline the 1,300+ invoices that Property Brokers had previously processed manually across its 45 national branches on a monthly basis. Using the cloud service, his company was able to meet its business objectives, reduce costs, and is positioned for more benefits as the business grows.

Nearly two dozen attendees from the across the region participated in the half-day session at the Manawatu Golf Course.

PROMINZ launching 'mentor' service

PROMINZ is planning to launch a mentoring service for members of its community. This was one of the initiatives discussed at the recent strategy day. They're after experienced and professional property managers who are in a position to offer guidance and support to members who need help navigating complaints and/or provide best practice advice.

These are unpaid positions and the ideal candidates will have a real desire to help PROMINZ raise industry standards and set this Institute up as the benchmark for excellence within the profession. People who are interested in putting their hand up should contact: david@pukekorentalmanagers.co.nz.

Membership advancements

Recently Registered Valuers

Jason Oster

Hayley Sarah Dabinette

Zane William MacGibbon

Ian Rollerson

Michael Joseph Dempsey

Ryan Davies Thomson

Matthew David Crowther

Ryan Patrick Gildea

Christopher John McCashin

David Henry Horne

Kris Martin Rodgers

Liam Peter Kelly

Jonathan Peter Crossan

Todd Alexander Howden

Andrew Hector Bragg

James Philip Carter

Jared Marc Lowry

James John Patterson Sandston

MPINZ advancements

Michael Scott Power – Auckland

Alina Barankova – Auckland

Glenn Nicol – Auckland

Alan Mitchell – Auckland

Brendan Auld – Auckland

Ben Coombe – Auckland (Reinstatement)

Cameron Ferguson – Canterbury/Westland

Simon William Ellis – Canterbury/Westland

Connor McCashin – Waikato

Hugh Davies – Overseas

(via reciprocity with API)

Linda Sharkey – Overseas

(via reciprocity with API)

Congratulations to the newly Registered Valuers and MPINZ recipients.

Contact details

Branch	Branch chair	Email
Northland	Melody Richards	melody.richards@telferyoung.com
Auckland	Phil White	phil.white@telferyoung.com
Waikato	Andrew Don	andrew.don@telferyoung.com
Tauranga	Paul Higson	paul.higson@telferyoung.com
Rotorua	Martyn Craven	martyn.craven@telferyoung.com
Gisborne	Che Whitaker	cwhitaker@lewiswright.co.nz
Hawke's Bay	George Macmillan	george@morice.co.nz
Taranaki	Ben Hunt	ben.hunt@npd.govt.nz
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Wellington NZIV	Hamish Bills	hamish@trueproperty.co.nz
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Canterbury/Westland	Simon Newberry	simon@fordbaker.co.nz
South/Mid-Canterbury	Alistair Wing	awing@xtra.co.nz
Otago	Warwick Reid	warwick@dunedinvaluations.co.nz
Central Otago	Barry Murphy	barry.murphy@colliers.com
Southland	Hunter Milne	hunter@hmvaluation.co.nz



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