SUMMER 2021

NEW ZEALAND PROPERTY PROFESSIONAL MAGAZINE

CELEBRATING THE END OF 2021 WELCOME 2022

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Summer 2021

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VIV GURREY

PINZ CEO END OF YEAR MESSAGE

Tēnā koutou katoa

Drawing the curtain on 2021

On behalf of the Property Institute of New Zealand it gives me great pleasure to wish you all a very Merry Christmas, and a happy prosperous and safe new year. As we draw the curtain on 2021, all of us are undoubtedly looking forward to a break and catching up with friends and family, including many of those in Auckland who we haven't seen for more than three months.

As with 2020, we've witnessed huge disruptions to our lives, our social fabric, our economy and for many their livelihoods. Nevertheless, as we turn the page on the year that's been there is cause for optimism as we chart a course into 2022, a new traffic light system, borderless travel and, inevitably, COVID in our communities. Despite the bumpy road we've been on in 2021, the Property Institute of New Zealand continues to innovate, adapt and deliver on its priority of continuous improvement with members at the centre of all that we do.

Our Annual Conference in Auckland was undoubtedly the highlight of 2021. Our fortunate timing in between COVID lockdowns meant it attracted a record number of attendees and the feedback from delegates was exceptional.

Congratulations to all those honoured at the event, especially our newest Life Member, Phillip Curnow, who has contributed so much to the property sector during his exemplary career.

I'd also like to thank our massively supportive Board of Directors, who have provided a steady hand of strong governance at a time when cool heads and nimble thinking have been more important than ever.

Thanks too, to our Presidents Luke van den Broek (PINZ) and Adam Binns (NZIV), our Community Chairs and all of you who participate in our branch network. You are the glue that binds us together as an organisation and without you we would simply not be able to function effectively. I am very much looking forward to seeing you all again in person during the branch AGMs in February and March. You can find your local dates here.

And, lastly, I want to thank the National Support Team. I could not be more proud of the way they have carried themselves through the pandemic this year. They have excelled in delivery and deserve a well-earned and relaxing Christmas break.

As we cast our eyes over the horizon and into 2022 it's really quite impossible to know what to expect. I work on the basis of expect the unexpected, plan for the worst and make the best from what life throws at you.

The Property Institute certainly lives up to that ethos and we are busy planning for our Annual Conference in June in Rotorua. Titled *Changing Landscapes: Moving Beyond Our Bubbles*, we have been securing some top presenters and working with our Community Education Committees to ensure we get the right blend of relevant education mixed with some high-level insights into the industry. We'll be launching the registration page early in the new year and revealing more of the programme then too.

> I work on the basis of expect the unexpected, plan for the worst and make the best from what life throws at you.

Finally, I wish to thank you, our members, for your continued support and engagement. It has been one heck of a year and the kind words and positive feedback you offer our team is most kind and greatly appreciated.

In this, my last message of 2021, all that's left for me to do is to wish you Hari Kirihimete, Merry Christmas, and a happy new year. I hope you all find some time to spend with your loved ones. Stay safe and I'll speak to you all again in January 2022.

Ngā mihi nui

Viv Gurrey
Chief Executive Officer
Property Institute of New Zealand

LUKE VAN DEN BROEK

PINZ President

END OF YEAR MESSAGE

As we round out what has been another busy year, I reflect on what has been achieved. In another year of uncertainty and challenges, we were fortunate to proceed with many events on the PINZ calendar, notably our Annual Conference in July. With record attendance, the learning and networking was both invaluable and enjoyable. It was a special event to be a part of and I'd like to thank all those that attended and contributed to its organisation.

A feature of the conference was the presentation of the Property Institute's revised strategy:

1. **Providing Public Confidence**
2. **Delivering Specialist Knowledge**
3. **Developing a Lifelong Career Path.**

With an aspiration to be recognised as the premier property membership organisation synonymous with quality, professionalism and the highest ethical standing, I am confident we have the strategy right to reach our goals for 2022 and the years that follow.

Looking into 2022 we shift our focus to executing our strategy, which includes some very exciting projects, such as the Branch Resource Hub, creating community-specific web pages and opportunities for free CPD. Another large piece of work ahead includes a review of the Rules and the By-Laws of the Property Institute to ensure they meet our current needs.

I'm proud of the National Support Team who've moved their feet with us and continue to deliver exemplary service to a diverse group of property professionals. I would like to thank all the team for the work they continue to put in on behalf of members. The changing landscape has continued to create challenges which have required an equal response to overcome.

Lastly, thank you to all of the members who make the Property Institute the fine organisation that it is. You continue to turn up, volunteer your time, do the mahi and enjoy yourselves. The diverse members, experiences and knowledge contribute to making us the premier property membership organisation.

On behalf of the Board, I would like to wish you and your families a Merry Christmas and happy new year. Enjoy your holidays.
See you in 2022.

All the best,

Luke van den Broek

Thank you to all of the members who make the Property Institute the fine organisation that it is. You continue to turn up, volunteer your time, do the mahi and enjoy yourselves. The diverse members, experiences and knowledge contribute to making us the premier property membership organisation.

PROPERTY INSTITUTE

ADAM BINNS

NZIV President
END OF YEAR MESSAGE

Well, 2021 has certainly been a challenge. From the personal perspective as head of a valuation firm, as President of NZIV, and as a member of this great profession of ours, the last year has brought with it a multitude of obstacles to negotiate, mostly around the pandemic and the rules and requirements which we've had to operate under.

A large proportion of our profession has spent the second half of this year significantly restricted, and unable in many cases to undertake property inspections, with almost no chance to cross the border. At Council level we have been repeatedly rebuffed by the Ministry of Business, Innovation and Employment in trying to get our profession classed as an essential service.

Now that the traffic light system is in place, hopefully the profession will be able to regain some normality.

2021 was not all doom and gloom though. I hope that members will agree that July's conference in Auckland was one of the best in years, and we must thank Viv Gurrey and her great team at the PINZ National Support Office for their great work.

Notwithstanding the pandemic, many local property markets around New Zealand have been buzzing over the last 12 months, and many firms have had very strong years indeed. Long may that continue.

I am looking forward to getting around the country in 2022 to meet as many members as possible and hopefully COVID-19 will oblige us in that regard.

In the meantime, your Councillors and I would like to wish every member of the New Zealand Institute of Valuers a very happy Christmas and new year. Get a good rest – with any luck next year will be a big one.

Kind regards,

Adam Binns

NZIV
NEW ZEALAND INSTITUTE OF VALUERS

I am looking forward to getting around the country in 2022 to meet as many members as possible and hopefully COVID-19 will oblige us in that regard.

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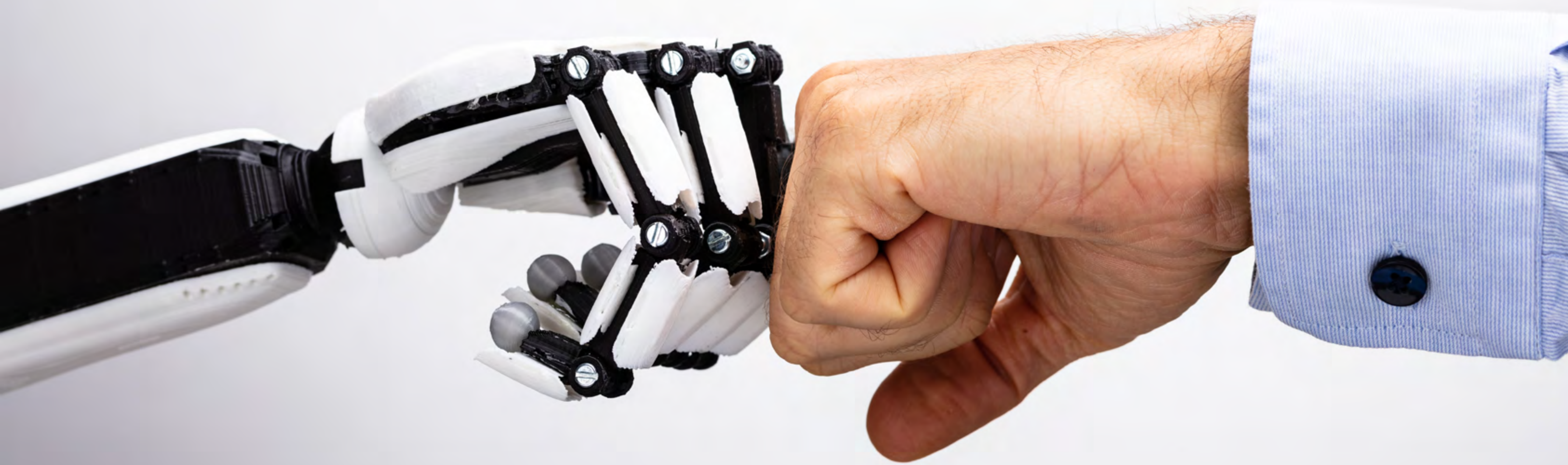
THE VALUE OF VALUATION



GARY GARNER

Digital valuation tools vs humans

There has been an increasing amount of commentary in recent times promoting wider application for digital valuation tools. While these new Automated Valuation Models (AVMs) have their place, they are most certainly not a replacement for registered valuers conducting professional valuations. There is a good analogy here with autonomous (self-drive) cars. The technology may be fantastic, but occasionally things can, and do, go horribly wrong. And, as for autonomous vehicles, the result can be absolute carnage.

The paradox here is that during their university training (a three-to-four-year programme), aspiring valuers are specifically taught how not to act just like a computer. They are trained to recognise the dangers inherent in relying upon purely mathematical averages and algorithms – yet at the same time, learning how to take such information into account. And, of critical importance, they are taught how to exercise human balance and judgement – something that computers typically find quite impossible to mirror.

Registered valuers also have an additional period of three years of internship after graduating before they can sign-off a valuation report. This means having a total of six to seven years of training before being able to legally operate. Registered valuers are also required to undertake their activities in accordance with the Valuers Act (1948) and associated Ministerially approved New Zealand Institute of Valuers (NZIV) Rules and Code of Ethics.

Aside from being required to maintain their professional competency, registered valuers are also required to act independently and with complete impartiality, regardless of who the client is that is hiring them. Furthermore, under the Valuers Act the NZIV has a legal duty to protect the interests of the public in relation to valuations of land and related subjects. There is no such mandate or requirement for AVMs.

During their university training, aspiring valuers are specifically taught how not to act just like a computer. Of critical importance, they are taught how to exercise human balance and judgement.

More than a mathematical problem

Imagine a computer, instead of a judge, hearing a court case, proceeding to formulate a verdict and sentence. Frightening thought? Similarly, the valuation profession (like a number of other professions) relies upon ways of thinking and interpretation that just cannot be digitised, even though digital information is typically collated and analysed as part of the process. Just one simple example is how one might take into account, say, an ocean view.

The influence and likely impact on property value, including ascertaining the possibility as to the ease in which it might be 'built out' by a neighbour, is not primarily a mathematically-based problem. It is only by comparative analysis – weighing up and down the relative merits of other similar or most comparable properties – that a more reliable conclusion may be arrived at. It relies very heavily on human judgement and assessment. The mathematical calculations are just one part of a much more complex process going on.

It is for this reason that the usefulness (when used cautiously) of AVMs has been generally restricted to property types where there are large homogenous data sets available (e.g. low-to-medium value residential properties). It is highly improbable that these systems will ever prove as useful for other property types where there are typically far fewer transactions (comparable properties) available for analysis. For example, rural properties, industrial properties, office blocks, mining sites, hotels and accommodation houses – to name just a few.

These properties are by their nature not all that homogenous and typically vary widely in their landforms, topography, land use, productivity, infrastructure availability, consent restrictions and caveats, building materials/quality and design – and a host of other variables. It is not feasible that anything other than a human is capable of taking this complex web of variations into account – and then trying to balance up conclusions based on empirical evidence that is often in short supply. Computers are not good at this and this helps explain why they are not commonly used in these arenas.

> The usefulness of AVMs has been generally restricted to property types where there are large homogenous data sets available (e.g. low-to-medium value residential properties).

> The involvement of registered valuers in the valuation process in New Zealand sets it apart from other jurisdictions where vested interests can bring pressure to bear, unduly prejudicing the wider public interest.

Role in courts

The analogy of the judge exercising reasoning used earlier is not so far removed from reality here. It is for this reason that registered valuers are also called in as expert witnesses to assist the courts in making determinations. There are also a number of registered valuers appointed to the Land Valuation Tribunal, including several appointees to the High Court in New Zealand – sitting with the Justice who relies upon the valuer's technical knowledge in order to draw conclusions and consider evidence.

The valuation profession in New Zealand is a part of a progressive open market economy, characterised by strong, transparent and trusted property systems. Registered valuers have a key role to play in ensuring market participants are properly informed. Independent valuation advice, based on international best practice standards, provides confidence for buyers, sellers and lending institutions. The involvement of registered valuers in the valuation process in New Zealand sets it apart from other jurisdictions where vested interests can bring pressure to bear, unduly prejudicing the wider public interest.

In short, in the valuation world, it is contended that, like many things in this life, you get what you pay for

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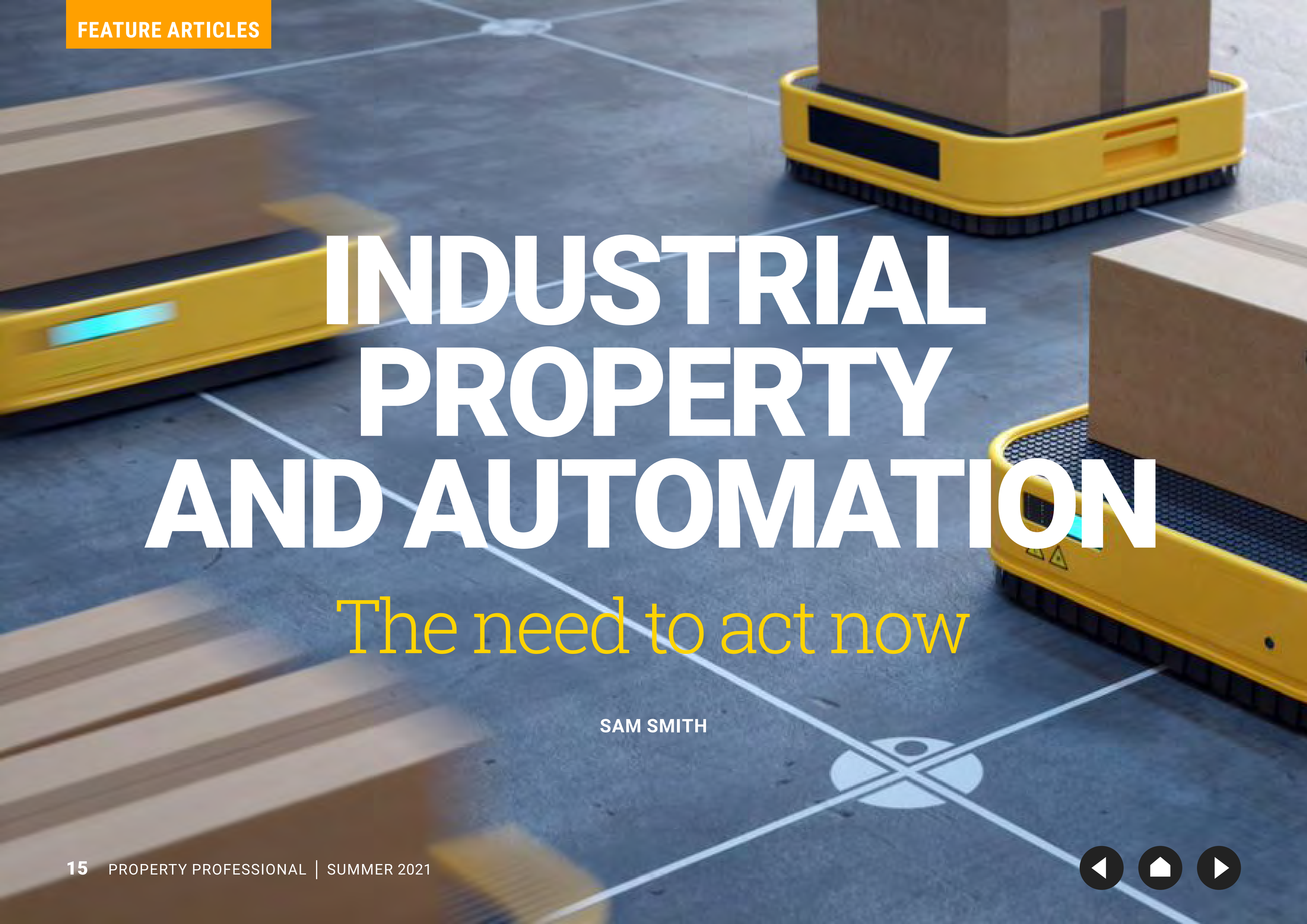

INDUSTRIAL PROPERTY AND AUTOMATION

The need to act now

SAM SMITH

The demand for automation is growing in New Zealand as businesses look to create high-speed, low-cost and efficient operations. As automation suppliers around the world near capacity, those looking to automate should act now to avoid missing out on the opportunity to transform their operations.

Online retail sky-rocketed

The restrictions from the COVID-19 pandemic have put a sudden halt on traditional retail consumption and forced shopping to become digital. The massive shift to e-commerce, and the rush for organisations to reconfigure their supply chain and fulfilment strategies to keep up with the demand, has made the move to automate even more pressing.

With demand for logistics automation already strong prior to COVID-19, the upcoming increase in demand may lead to a global race to automate. For those with an industrial property footprint, it's time to consider how automation might be incorporated into facilities.

Over the last decade, the retail model has been moving from shopper-to-goods towards goods-to-shopper, which has driven an uptake in logistics automation. With COVID-19 forcing most retail stores to temporarily close, consumers were forced to buy online, many for the first time.

> Over the last decade, the retail model has been moving from shopper-to-goods towards goods-to-shopper, which has driven an uptake in logistics automation.


Warehouse automation

> The labour market in manufacturing and logistics is tightening, not least due to the '4Ds' – dull, difficult, dirty and dangerous work.

As a result, online retail has skyrocketed. In 2020, New Zealand online retail increased a whopping 105% during an Alert Level 3 lockdown. This trend continued into 2021, with NZ Post reporting that two million items were delivered across a six-day working week during the September Level 3 lockdown. That's the equivalent of about four parcels delivered every second to Kiwi homes. High demand, coupled with supply chain challenges, is also squeezing industrial retail space as retailers consider whether to stockpile goods to meet that demand.

New Zealand has been slow on the uptake of automation compared to countries like the US where over 70% of warehouses are automated. However, as companies grapple with the surge in e-commerce, many are considering how to accommodate demand. With current warehouse capacity pushed to the limits, automating operations is increasingly being considered as an option. This will create high-speed, low-cost and efficient operations, reducing pressure on warehouse capacity and freeing up space. In turn, this will have direct ramifications for the industrial property market.

The demand for automation

The rise of e-commerce has fostered an age of immediacy and a consumer mentality of 'I need it right this second.' This is forcing organisations to prioritise high-speed operations through automation. Automating operations enables low-cost fulfilment of orders in a short timeframe through increased operational efficiencies, higher storage density and a greater ability to deal with spikes in demand.

The push to automate is also compounded by a scarcity of labour, which has been exacerbated by New Zealand's ongoing border restrictions. The labour market in manufacturing and logistics is tightening, not least due to the '4Ds' – dull, difficult, dirty and dangerous work. This is driving the next generation in the workforce to move away from this labour. Importantly, automation also eliminates this (at times) hazardous work.

In New Zealand, we are increasingly seeing automation being adopted by businesses of all sizes across a range of different sectors. With warehousing space at a premium in some areas of the country, automating parts of the supply chain is a useful tool to use space more efficiently and effectively.

Automation suppliers around the world nearing capacity

Reports and Data last year reported that the global logistics automation market will reach USD$120 billion by 2026.

While there are automation suppliers across Europe, North America and Asia, the range of suppliers is not endless. The specialised expertise required to design, cost and execute automation systems means that the major automation suppliers around the world have been incredibly busy for the last five years. In New Zealand, we are also impacted by our geographical isolation, so while there are automation providers available, they are not as readily accessible as in other markets.

The need to act

With major automation suppliers already nearing capacity and the likely increase in demand for logistics automation, those looking to adopt need to act now.

While not every industrial premise in New Zealand will have the capacity to incorporate full end-to-end automated solutions, we are starting to see even small companies investing in automation through financing or in some cases developer incentives.

Planning and implementation take many years and this needs to consider the capacity and timelines of automation suppliers. Here in New Zealand, organisations also need to consider the huge volume of automation demand in North America and Europe and get ahead of the demand curve or risk losing the opportunity to transform their operations

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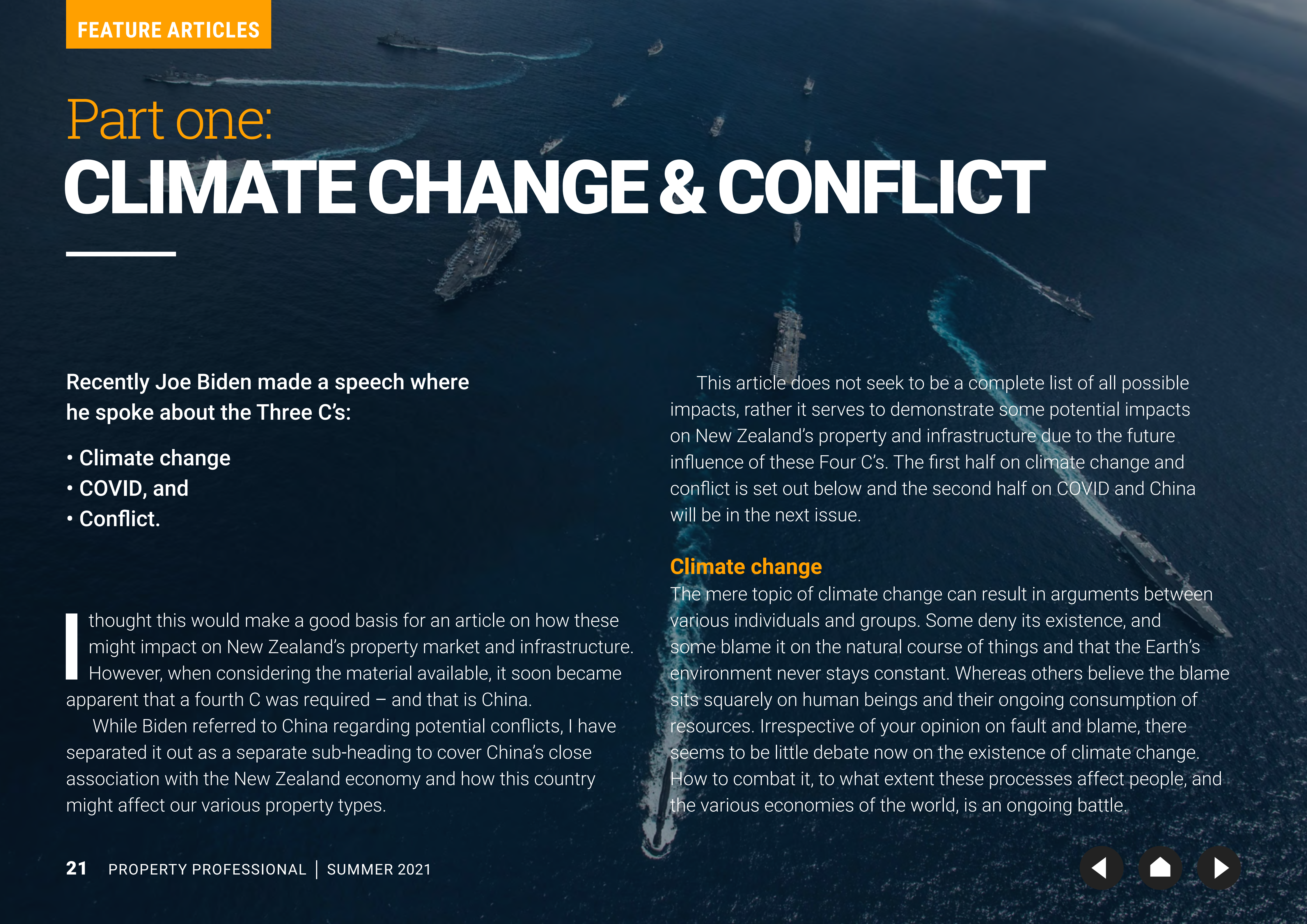
FEATURE ARTICLES

HOW THE FOUR C's MIGHT IMPACT ON NEW ZEALAND PROPERTY & INFRASTRUCTURE

VAUGHAN WILSON



Part one:
CLIMATE CHANGE & CONFLICT

Recently Joe Biden made a speech where he spoke about the Three C's:

- **Climate change**
- **COVID, and**
- **Conflict.**

I thought this would make a good basis for an article on how these might impact on New Zealand's property market and infrastructure. However, when considering the material available, it soon became apparent that a fourth C was required – and that is China.

While Biden referred to China regarding potential conflicts, I have separated it out as a separate sub-heading to cover China's close association with the New Zealand economy and how this country might affect our various property types.

This article does not seek to be a complete list of all possible impacts, rather it serves to demonstrate some potential impacts on New Zealand's property and infrastructure due to the future influence of these Four C's. The first half on climate change and conflict is set out below and the second half on COVID and China will be in the next issue.

Climate change

The mere topic of climate change can result in arguments between various individuals and groups. Some deny its existence, and some blame it on the natural course of things and that the Earth's environment never stays constant. Whereas others believe the blame sits squarely on human beings and their ongoing consumption of resources. Irrespective of your opinion on fault and blame, there seems to be little debate now on the existence of climate change. How to combat it, to what extent these processes affect people, and the various economies of the world, is an ongoing battle.

Developing nations such as China, India and many smaller nations don't want to employ aggressive targets and methods of restriction of carbon dioxide emissions and other climate change associated pollution. Developed nations don't want to lose their competitive position on production (everything from commodities, electricity, products and services), nor do they want to pass on severe pricing and penalties to their people to curb climate change.

But how could this affect New Zealand's property market and significant infrastructure? Climate change is always closely associated with statistics in order to compare history and propose future values. Here are some of the numbers:

- Sea levels have risen faster over the last 100 years than any time in the last 3,000 years and this acceleration is expected to continue. A further 15–25 cm of sea level rise is expected by 2050
- A 50 cm rise in sea levels will put an additional 36,000 buildings in New Zealand at risk
- The Ministry for the Environment's latest projection for New Zealand is that sea levels could be between 46 cm and 105 cm higher by 2100
- 67% of New Zealanders live within 5 km of the coast
- The IPCC Sixth Report on worldwide climate change has stated that New Zealand land areas have warmed by 1.1°C between 1910 and 2020
- It is estimated that between 2007 and 2017 climate change caused floods and droughts cost the New Zealand economy $840 million.

A rise in sea level poses a risk to New Zealand's 15,000 km of coastline, putting tens of thousands of houses in danger of more frequent and extreme flooding and erosion.

The influence of climate change on New Zealand's property market is significant. Many towns and cities are built on or near the waterfront. Others benefit from being close to where rivers flow into seas and harbours. These are all at risk of flooding with rising sea levels. Higher sea levels will mean either the relocation of properties (buildings, cities, infrastructure etc) or significant flooding protection infrastructure programmes. These are very expensive and require ongoing maintenance and upgrades.

So, who will pay for the floor protection? Who will pay for the relocation of buildings? Who will pay for the new buildings, infrastructure and associated facilities when houses, suburbs, towns and whole cities need to be shifted to higher ground and inland? For instance, most of the Wellington CBD sits on reclaimed land that went through reclamation projects during the 1800s and 1900s. This includes the Port, public accessible areas, streets and roads, commercial premises and some housing. The cost of relocation would be in the billions. The cost of floor protection would be less, but still in excess of $1 billion.

A rise in sea level poses a risk to New Zealand's 15,000 km of coastline, putting tens of thousands of houses in danger of more frequent and extreme flooding and erosion, and exposing $14 billion worth of local government infrastructure to damage and around $18 billion of property.

Agriculture is New Zealand's largest export with sheep, beef and milk-related products dominating our export statistics. These well-made/grown/manufactured products have an impressive international reputation and have helped New Zealand stay afloat during the pandemic, and have long been the backbone of our economy. This is even more so given our largest export, international tourism, is nil during the COVID pandemic.

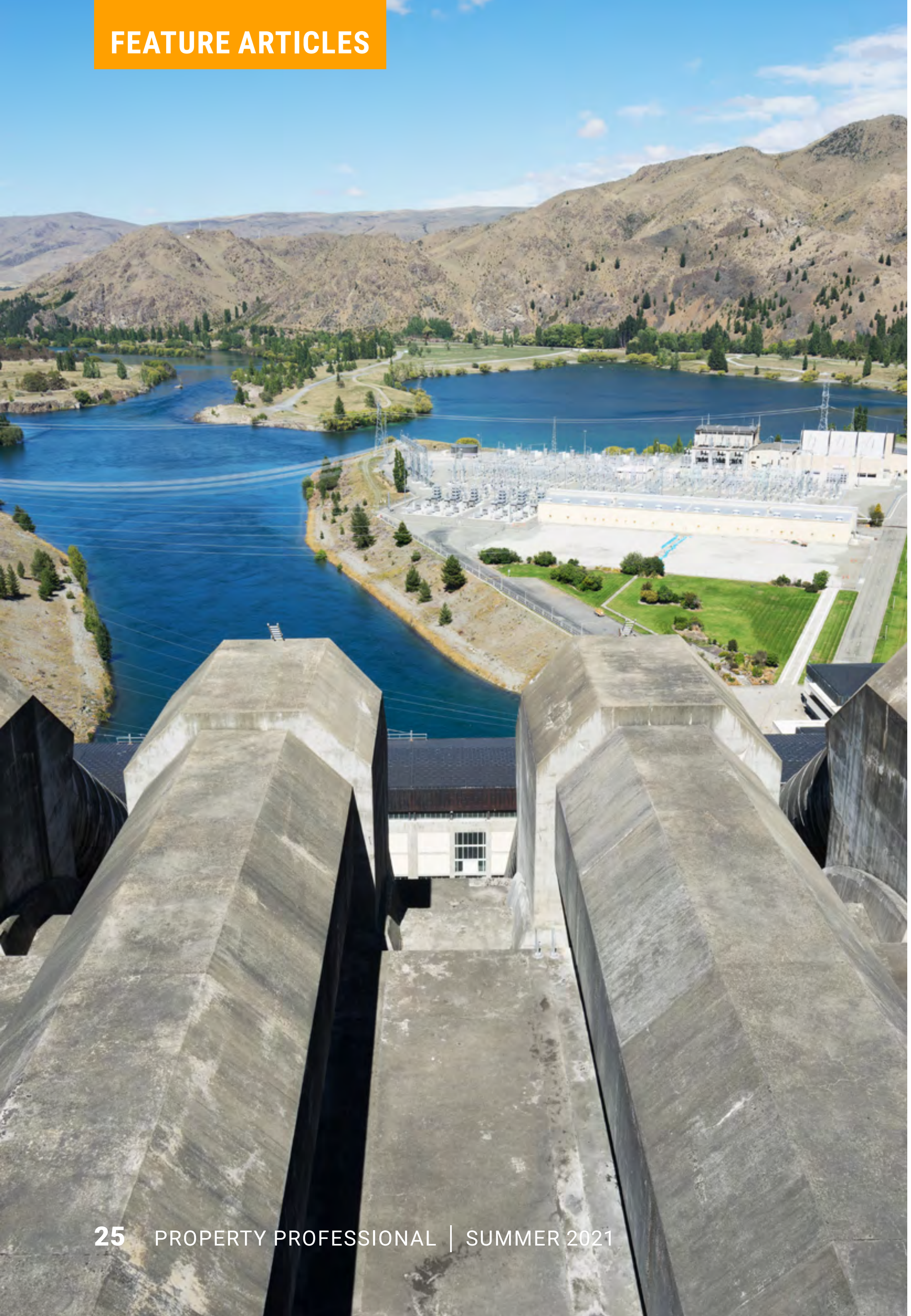
Agriculture will be massively affected over the next 100 years as temperatures rise. International and government evidence has shown New Zealand will become a land divided by weather extremes. Rain will batter the west and south of the country leading to floods, while high temperatures will bring drought and fires to the east and north of the country. Research has suggested that New Zealand's GDP has already suffered to the tune of around $800 million in the last 10 years due to droughts.

These extremes were demonstrated recently with Westport this year devastated by flooding, while 2020 saw a prolonged drought in the north. Developments in synthetic meat and plant-based protein could also hurt the farming industry in the future.

Aquaculture and fishing are not exempted. Rising sea temperatures will also alter the fish stocks, breeding, and the ability to farm fish and shellfish, all possibly with devastating results. Although this too may open up opportunities for fish-related products usually associated with warmer seas.

A senior scientist at Manaaki Whenua Landcare Research, Dr Nick Cradock-Henry, says drought was now New Zealand's costliest hazard. 'Our agricultural systems – including horticulture, viticulture, arable cropping and livestock – are sensitive to these changes, due to their dependence on stable, long-term climatic conditions in which current land management and land-use decisions and practices were developed, and through impacts on production, quality and yield.'

Rain will batter the west and south of the country leading to floods, while high temperatures will bring drought and fires to the east and north of the country.



Insurance for property will also get more expensive, with some insurance companies refusing to provide cover for high-risk properties, similar to what they have been doing recently for high-risk earthquake locations. This will mean many properties are either too expensive to insure or are uninsurable, and thus their owners cannot raise mortgages. Land itself is not usually insurable.

> Insurance for property will also get more expensive, with some insurance companies refusing to provide cover for high-risk properties.

Most of New Zealand's electricity is from hydro dams and an underground electricity plant (Manapouri in the South Island). We rely on rain to melt the snow to fill the rivers to fill the lakes behind the dams. If the drought conditions extend to the mountains in the South Island, we could have dry periods whereby the lakes fall to critical levels and hydro power cannot be counted on for large-scale power supplies. Currently when this happens, we burn more coal at Huntly power plant to compensate.

Other forms of renewable energy, such as wind and solar, are not inherently reliable to ensure 100% back-up in times of low hydro lakes. This is why the Government is looking at the pumped storage of water to be used in times of low lake levels.

Impacts on property could include a far greater installation of solar panels, both on residential and commercial property, helping to offset the shortages in generation and to help with the increased demand as more electric cars enter our national fleet. These panels will eventually be designed more integrally into the design. For instance, into the glass walling of commercial buildings and onto the cladding of houses.

Battery storage will also be included into the design of buildings in improving ways, allowing for more storage during sunny days. Better charging at residential premises is on the way to allow for the larger numbers of electric cars. Many of the new residential developments do not provide car parking on-site, therefore challenging engineers to charge electric vehicles safely and efficiently.

Drought will also lead to shortages of drinking water in certain locations, while too much rain can lead to a similar problem. In March 2017, a huge storm called 'The Tasman Tempest' descended on Auckland. Large volumes of rain fell onto the Hunua Ranges causing massive slips, which led to contamination of the drinking water reservoirs with silt.

Better on-site storage of stormwater, usable for at least non-potable uses and possibly potable, are not easy in intensive residential developments that are popular at the current time. These developments provide only limited land per dwelling, so stormwater storage has to be specifically designed to be included in the house design, such as under a deck or under the floor.

Goods and services will undoubtedly increase in price as a consequence of climate change. In part, this may be because certain things do not grow or manufacture as easily as in the past due to changes in the climate (e.g. fresh produce may be more difficult to cultivate at certain times of the year or water may be in short supply adding to the cost of food production).

The Government will add a series of charges or tariffs against various items to reduce New Zealand's carbon production. We have already seen tax surcharges brought in for 2022 on internal combustion engine (ICE) vehicles. However, these will no doubt be extended to other items, such as increases in fuel taxes, surcharges on other carbon-producing activities (like freight by truck and train, air travel, ship travel), including freight overseas adding to our export price and other items.

The idea is for these surcharges to force manufacturers (and suppliers of services) to find more efficient and less environmentally harmful ways of providing their products and services. It also persuades purchasers to reduce the volumes they buy, providing impetus for consumers to pick more environmentally efficient brands or simply increase the tax take, presumably so the Government can invest in carbon credits.

People will seek more environmentally sympathetic housing meaning new houses will move towards a more passive housing model – costing more to construct but consuming far less resources to operate. Factories and similar buildings will seek more carbon efficient ways to produce their goods, including reducing the consumption of water, reducing wastewater and better ways to utilise electricity. Factories utilising solar power on roofs will be more common and capturing rainwater for on-site use will be far more common that currently seen.

Due to products costing more, some people will have difficulty with their discretionary spend, and a contraction in certain markets will no doubt occur over time as staple items, rather than luxuries, dominate the household spend.

Conflict

The last real conflict that affected the New Zealand economy to any great significant was World War 2. Subsequent wars (such as Korea, Vietnam and the Gulf War) had limited, if any, effect. This meant that the property market was also largely unaffected. Biden has mentioned conflict largely in relation to China and North Korea. Both countries are expanding their defence capabilities, China has greatly increased the size of its army, navy and airforce, and it has placed increased emphasis on new weapons using the latest technology.

Russia too has stepped up its focus on expanding and modernising it defence capabilities. North Korea has a largely old-fashioned defence force and weaponry, but it has put a lot of resources into developing a nuclear weapon and the vehicles by which to take the weapon to the enemy.

For China, the potential for conflict with the west is likely to come in the form of issues over the South China Seas, and/or the taking of Taiwan in the northwest of the same area. Recently an armada of allied ships and aircraft carriers from the US, UK, Canada, Japan, Australia, The Netherlands and New Zealand sailed through these waters as a show of force. Similarly, China sent numerous sorties of planes over towards Taiwan to do the same. Japan, South Korea and other countries are constantly monitoring North Korea's activities.

During World War 2 interest rates were very low, around 1.8%–4%, and controlled by governments in each economy to curb volatility during difficult times.

For the September 11th terrorist attacks and the war that followed in Iraq, the NZ Treasury reported on the following potential outcomes:

- Lower demand for New Zealand exports of goods and services (largely inbound tourism)
- Lower export prices, compounded by higher import prices due to high oil prices
- Confidence being negatively affected, leading to a pull-back on domestic consumption and investment
- Equity markets and exchange rates with financial markets to become more volatile, and equity markets retreating and leading to flow-on impacts from wealth loss.

If the country is exporting less and/or exporting for less dollars per item, this would have a flow-on effect into the property market. People may put off purchasing or developing a new house, as well put off improving their house, thereby delaying using contractors and supplies. Higher oil prices tend to quell the economy and that would also flow into slowing the housing market. Volatile interest and inflation rates would further reduce the demand for new mortgages and take the heat out of the property market.

Depending on the severity and length of the conflict, the impact on imports and exports will result in either a minor or major impact on New Zealand's property markets. There could easily be an upsurge in demand from overseas to invest in different property types in this country if it is seen that New Zealand is a safe haven from the conflict.

For a large conflict, many companies will be affected and may reduce in size or disappear as demand for their goods reduces or vanishes. Similarly, some manufacturing may be altered to manufacture products for use in the conflict. Agriculture products may also be grown to feed the armed forces involved in the event of a conflict. All of these potential changes could greatly affect commercial and farming properties, and only time will tell if this will be an eventuality or if common sense will prevail

For a large conflict, many companies will be affected and may reduce in size or disappear as demand for their goods reduces or vanishes.

Vaughan Wilson is a Director of Digital Nomad Coworking in Wellington, Wilson Hurst Property Services operating in Auckland, Wellington and Christchurch, and Wilson Hurst Property Valuation in Wellington.
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WHY A REGISTERED VALUER?

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GOING ABOVE AND BEYOND CARBON NEUTRALITY

LUKE APPLEBY

Andrews Property Services staff during a planting day

APS Complete Property Services (APS) became carbon zero certified in 2019, but now the team at this nationwide property remediation company is planning to double (even triple) their offsets, to become one of just a handful of New Zealand companies that are carbon positive.

APS aiming for carbon positivity

'Getting to carbon zero may help save the planet by avoiding a climate disaster, but we believe this is just the starting point,' says APS owner Robert Creemers. 'To heal the planet, we need to go beyond carbon zero.'

Formed in 1991, APS provides a diverse range of services to restore, enhance and protect the value of its clients' commercial properties. An important part of this has always been a strong commitment to managing the company's own environmental footprint, which led to its push to attain carbon zero certification from Toitū Envirocare in 2019.

To achieve this, APS offsets its carbon emissions by sequestering carbon through native bush regeneration on its own properties, as well as undertaking forestry planting, the re-establishment of wetlands and carrying out intensive pest eradication. This year alone, the APS team have planted more than 10,000 plants during four planting weekends at its largest conservation site at Raurimu.

APS offsets its carbon emissions by sequestering carbon through native bush regeneration on its own properties, as well as undertaking forestry planting, the re-establishment of wetlands and carrying out intensive pest eradication.

Gathering data and making changes

'APS began its journey towards becoming carbon neutral by spending nearly a year gathering emissions data, mainly in the areas of fuel, waste, travel and electricity, which yielded many useful insights,' Robert says.

'We not only got into the detail of where our emissions were coming from, and how we could start reducing them, but we also got to review our entire business and understand where we could be more efficient, not only for the environment, but financially,' he says.

APS began its journey towards becoming carbon neutral by spending nearly a year gathering emissions data, mainly in the areas of fuel, waste, travel and electricity, which yielded many useful insights.

Through undertaking that process, APS has been able to achieve annual cost savings by reducing waste output, as well as reducing water and energy costs. So far, those savings have exceeded the cost of the audit process.

The company has been using the EROAD fleet management system since 2020, which allows them to not only capture accurate fuel usage data, but also lower costs and improve fuel efficiency through real-time driver feedback software.

After implementing EROAD, they've also noticed an increase in tyre and brake lifespan, fewer accidents and less vehicle damage, lowered maintenance costs, and improved health and safety outcomes for staff.

APS's Environment, Health, Safety & Training Coordinator Ming Phoon says it was challenging to get the data they needed around waste, and that the company likely overestimated its emissions in that area as a result.

Obtaining good waste data required working with suppliers to not only obtain data on waste generated on APS's business premises, but also through services provided to customers such as demolition.

'We categorise our waste as "mixed", which carries a higher default emissions factor per tonne, so we know we need to improve this data set,' Ming says.

APS partnered with Green Gorilla, who have the only facility in New Zealand that diverts waste from landfill, helping the company to improve its reporting and reduce the volume of what it sends there.

Making environmental and financial sense

APS believes its approach to carbon neutrality – and positivity – sets them up well for the future, as the market increasingly puts more significance on environmental credentials when negotiating contracts and running tender processes.

'While this might happen naturally as businesses become more responsible, it's probably going to come from legislative change similar to what has happened in the health and safety area,' Robert says.

ANZ New Zealand Managing Director of Business Lorraine Mapu says Robert's thinking is right on the money.

Lorraine Mapu, ANZ New Zealand Managing Director of Business

APS believes its approach to carbon neutrality – and positivity – sets them up well for the future, as the market increasingly puts more significance on environmental credentials when negotiating contracts and running tender processes.

'Our customers, including APS, are increasingly becoming aware of the benefits of a strong environmental policy, and we believe it will position them well in the future, not only in terms of doing the right thing, but also financially,' Lorraine says.

'Companies taking these steps are setting themselves up to maximise business in the new environment of corporate responsibility, and we couldn't be more proud to see APS leading the way here,' she says.

At the time of certification, APS was the first New Zealand company in the building industry, and the first contracting company in any industry, to achieve carbon zero certification – an achievement the company's team and owner are very proud of

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PROPOSED NEW RULES FOR HOUSING DENSITY

What does this mean for you?

Relab

Last month, National and Labour announced new housing density rules which will allow three buildings of up to three storeys tall to be built on most sites in our biggest cities, without resource consent. It's hoped that these law changes will improve our housing shortage and make home ownership an achievable goal for more kiwis. However, some questions still remain about what these building intensification rules mean for property developers, residents, and communities throughout New Zealand. Here at Relab we wanted to help clarify some aspects of the proposed new rules.

What are the new rules?

The proposed law changes would allow three buildings of up to three storeys high to be built on most sites in New Zealand's major cities. This would override existing zoning laws set by councils, which usually only allow for one home of up to two storeys per site. The law changes would come into force in August 2022.

Councils would also have the option to expand on the rules to make them even less restrictive on builders. Property developers will still need to apply for resource consent if they want to go beyond what the rules allow. There will also be some exceptions, such as for sites that have heritage value or are affected by natural hazards.

It also looks like the National Policy Statement on Urban Development (NPS-UD) will be fast tracked. This will stop councils from being able to require car parks and prevent buildings of more than six storeys from being built in urban areas. These changes will now come into effect in August 2023, rather than August 2024.

How will the new building intensification rules impact the housing market?

Most politicians and residents agree that we're facing a housing crisis. Housing Minister Megan Woods said that, 'New Zealand has a serious housing shortage, and has simply not built enough homes to meet the needs of New Zealanders.' She acknowledged that our lack of housing has particularly impacted the country's most vulnerable, and young populations.

However, Woods is optimistic that these new law changes will lead to more homes being built. She cited modelling done by PwC, which estimated that these rules will add between 48,200 and 105,500 dwellings on top of the current expected new builds over the next five to eight years. We're likely to see more homes being built near people's workplaces, public transport, and community facilities. Hopefully, this urban intensification will be attractive to many first home buyers.

The construction industry is booming and building consents are already at record highs, so these law changes aren't about getting a stagnating industry moving. We shouldn't expect to see far more new builds and house prices falling straight away. These changes are expected to sustain development over the long-term, so we can see our housing stock steadily increase over the next several decades.

Are there concerns about these law changes?

There have been concerns that high density development may not be suitable for certain areas and that the Government should have taken a more targeted approach. A few community leaders are worried that the new housing density rules would lead to trees being cut down to make way for new builds, or that communities might lose their character.

National Party leader Judith Collins fired back at these concerns, stating that 'our communities lose their character when people can't afford to own their own home.' Greens leader James Shaw has also pointed out that 'there's no reason why modern apartment buildings have to be ugly.' He brought up London as an example of one of the many cities in the world where people live in high quality, dense housing developments.

There have been concerns that high density development may not be suitable for certain areas and that the Government should have taken a more targeted approach.

The other concern is that these rules aren't doing enough to drive long-term property development initiatives. ACT leader David Seymour has been critical of the Bill, calling it a 'hollow stunt'. He pointed out that many city councils try to hinder building with zoning laws and difficult resource consent processes because they don't have the infrastructure funding that they need to support it. He suggests that broadening council funding is vital for making sure that these changes are effective.

What do the new housing density rules mean for property developers?

These rule changes are exciting news for developers. If you've built before, you probably know that obtaining resource consent can be a very costly and time-consuming process. With that hurdle now potentially out of the way, developers can instead focus on actually planning and building. Because both major parties are collaborating on this law change, it also offers investors and developers far more certainty about the future of building in New Zealand.

These changes reflect a modernisation of New Zealand's cities, and encourage developers to cater to the needs of the younger generation. Many graduates and young professionals want to live in built-up areas, as that's where their jobs and connections are. This means that there's a huge market for medium density urban housing. Of course, to make these new builds attractive to buyers, it's crucial that developers make sure they're building high quality homes that people are happy to accept over a larger house further out of the city.

Being able to build more easily also means we may see a rise in prefabricated technology, or offsite manufacturing. Previously, it's been rare to be building at the scale that actually makes these options a faster, more affordable choice. But with the rule changes coming into effect, developers may decide to explore some of these alternative construction methods. We did a great webinar last month with Qorox who is doing just this with 3D printed concrete.

These new building intensification rules may still have some details to iron out, but it looks like they signal a new era for New Zealand's housing market. It's great to see Labour and National working together to improve living conditions for kiwis, and many innovative property developers will be getting very excited to take advantage of these big changes.

Here at Relab it's our aim to help property professionals work smarter and get better results for both themselves and their clients. We've just released a new Medium Density Projection calculator to assist in the early stages of planning with the new rules – pop over to Relab and start a free trial to try it out for yourself.

www.relab.co.nz/start-free-trial

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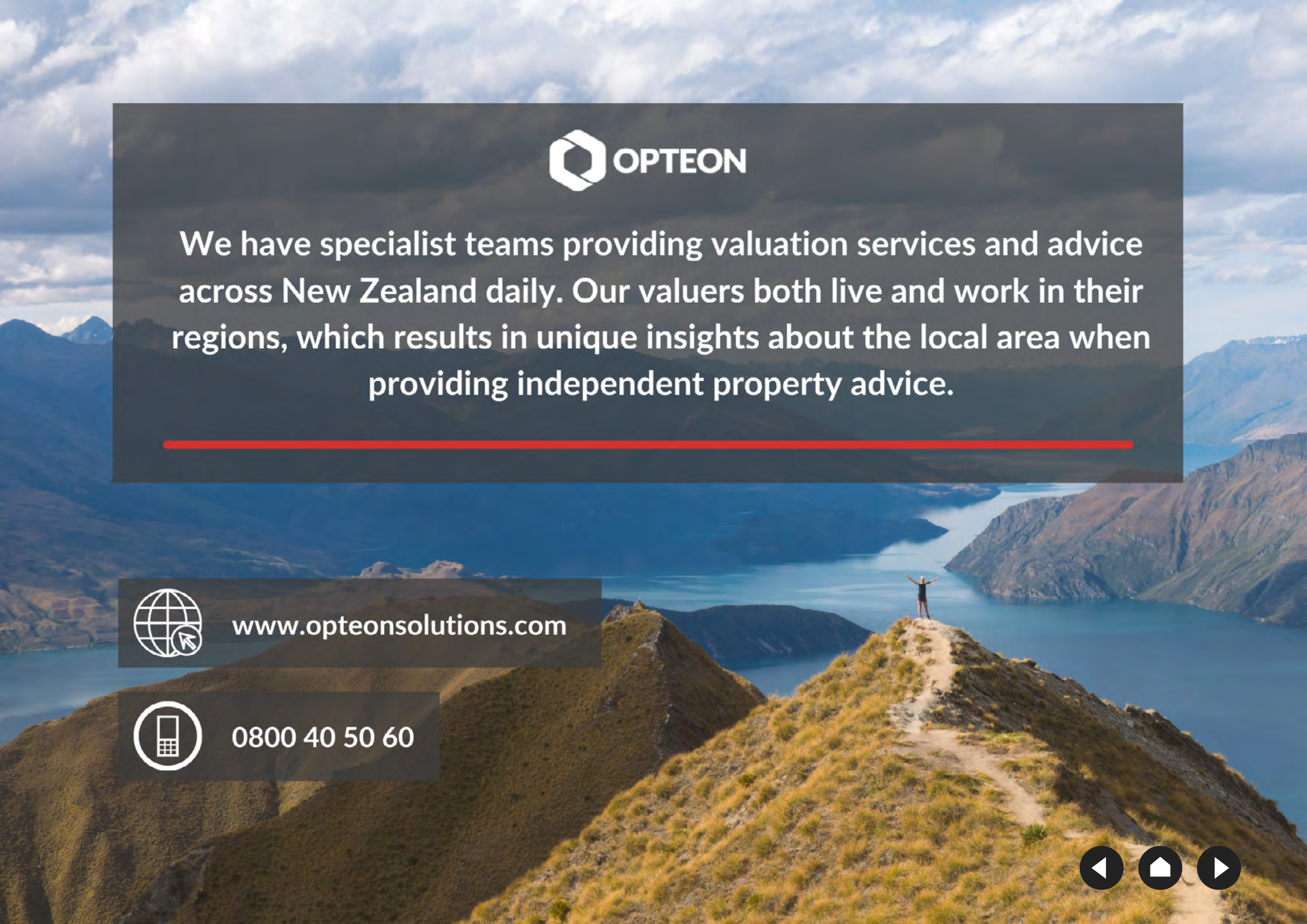
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This profile looks at the career of Phil White, registered valuer and current Auckland Branch Councillor.

PHIL WHITE

Early days

Phil decided at an early age that he wanted to be a valuer. Initially his plan was to become a resource consent planner, an architect, and then an economist, but he wanted a job which spent some time outside. A valuer covers all these areas, and best of all he still likes the job.

Deborah Levy was a new lecturer at Auckland University when he started his Bachelor in Property in 1984. With an excellent class and a great lecturer, he felt it was a fabulous start to his property career and is grateful for his time there.

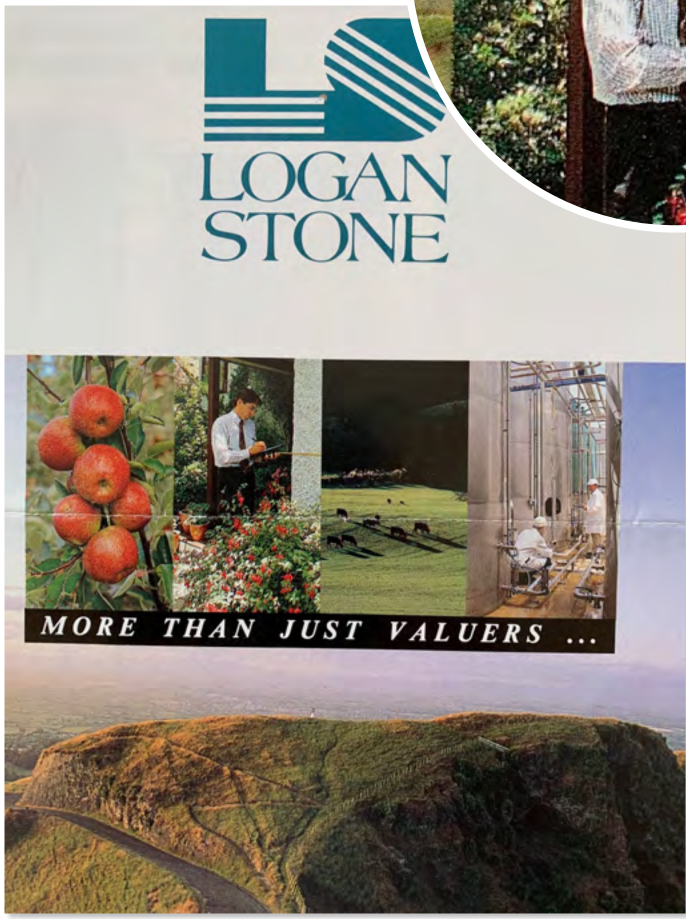
By now it was the late 1980s, with its heady sharemarket days, and following university he went back to his hometown of Hastings and worked in Hawke's Bay. Following his registration, private practice was the next step and he joined Logan Stone in Hastings and remained there for five years.

With a desire to become a more rounded property professional, and needing a change, Phil met Tim Hayward through sailing in Napier and Tim offered him a job at Works Consultancy (now WSP Consultancy) as their registered valuer, property consultant and commercial sales agent. This opened up Phil's property world, with lots of government work and a variety of other clients.

Telecom Mobile and Spark

But Phil headed back to Auckland in 1997 as he had formed a relationship with Telecom Mobile (now Spark). Through this arrangement he set up as a property consultant in Auckland, primarily completing the scoping of mobile phone sites. This was an exhilarating period from 1997 to 2003, with the setting up of 2G,

Phil in a vintage Logan Stone brochure from 1990



> With the first of his children on the way in 2004, and Telecom wanting him to take on a whole team for 3G, the ups and downs of being a sole trader became too difficult. Phil visited all the valuation firms in Auckland and decided that TelferYoung was the right place for him.

which included the provision of services for the Amercia's Cup defence in 2000. This event required the hireage of helicopters and setting up sites in Hauraki Gulf.

With the first of his children on the way in 2004, and Telecom wanting him to take on a whole team for 3G, the ups and downs of being a sole trader became too difficult. Phil visited all the valuation firms in Auckland and decided that TelferYoung was the right place for him. He says he was able to keep the Telecom work going for a further couple of years by stealing all the partners' graduates to come and work for him. He still works for Spark today completing rent reviews on mobile phone sites.

TelferYoung work

In 2005, he was made a partner of TelferYoung (Auckland) Limited and remains there today. His work as a valuer is (and has always been) a mix of residential and commercial, with speciality areas as well. These areas include:

- Subdivisional land
- High-value residential homes
- Assisting Tamaki Regeneration Limited with new unit values
- Residential litigation work
- Attending both the District and High Court
- Portfolio work
- Hotel/apartment rental assessments
- Both suburban commercial and industrial valuations.

Auckland Branch Chair

Phil's involvement with the NZIV back in Hawkes' Bay in those early days was as the statscom officer, where they collected new build costs throughout the region. This was a very successful way to gather costs and they were published in the national magazine. But after being a soccer coach and ref for both his boys and going onto tennis for about the last 10 years, they now need less and less of his time. This was the perfect opportunity for him to put some effort back into the Institute and he joined the Auckland Branch about five years ago.

After about 18 months on the committee Phil was offered the role as Chair, and while he thought he was not ready for this he has really enjoyed the role and has been in it for more than three years. The role has allowed him to connect with the National Office, to see what the Institute aims to achieve, and to perhaps influence how that might help his branch. He believes that involvement in the committee meetings and branch events allows him to know his colleagues in the industry better, as well as those in the National Office, and for him that's a real privilege. The role as Chair has also allowed him to reconnect with Auckland University and extend this relationship to Massey.

Auckland Branch Councillor

This year Jason Williams has had to step aside as Auckland Branch Councillor due to work commitments, after years of dedicated service. As a temporary role until the elections next year, Phil has taken on this task and the branch has unanimously elected Avella Collopy to take over his Auckland Chair position. He believes that Avella will do a sterling job in this role and he will remain on the PINZ and NZIV Auckland Branch Committee.

At the branch they have been actively trying to promote two keys things: women in property; and better engagement with both Auckland and Massey University. Now with Avella heading things up, and two other committee members (Divya Patel and Chloe Woollard) dedicated to these tasks, Phil is confident that good progress will be made in the next year or two.

As part of the NZIV Council, there are a number of committees all Councillors are required to participate in and he will be the Chair of the Education sub-committee and a member of the Code of Ethics sub-committee. Again, although a little daunting for him to start with, this offers participation in the industry with a chance to see what issues are facing members and how the sub-committees can make the lives of valuers better.

One of Phil White's speciality valuation areas is hotel/apartment rental assessments. Photo courtesy of Quest Apartment Hotels (NZ) Limited

Following in his father's footsteps

He has also seen the future of valuation first-hand with his son, Ben, who last year completed (from Year 11) a school scholarship in Digital Technology. With a father who knows about valuation, but is not computer literate, Phil had the role of mentor. Ben essentially created a value-mapping website for one part of Auckland (non-commercial version for school purposes only). This is the future, but Phil believes these things have their place in the market, and that both digital valuations and our normal full narrative styles can work alongside. For him, this is (and will be) a challenge for our industry.

Succession path needed

Phil loves the property industry, and in particular valuation, and his only wish for the future is that more members will embrace the Institute and become more involved, whether this is through one of the universities or the offer to speak or present a webinar. His plea comes as a large number of members are in their twilight years and he feels there is a real risk that we will lose decades of knowledge without a succession path

Email: phil.white@telferyoung.com

Phil loves the property industry, and in particular valuation, and his only wish for the future is that more members will embrace the Institute and become more involved.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FIXED-PRICE CONTRACTS FOR RESIDENTIAL NEW BUILDS

When fixed prices become unfixed

NATALIE WILSON
AND SHANTI FRATER

Fixed-price contracts for residential new builds have historically been a means of establishing certainty around the cost of a new home for buyers and of providing developers with certainty around their expected margin. However, with the continuing rapid increase in the cost of building supplies, the certainty once promised with this form of contract is becoming a thing of the past. Buyers are learning that despite their new build contract being 'fixed price', the increasing costs of supplies can often still be passed on by the developer, causing unexpected budget blow-outs.

This article discusses when and how fixed-price contracts for new builds may allow a developer to pass on additional costs during a build and the consequences that may follow for buyers. It assumes that the developer is the 'builder' or 'contractor' under the contract with a buyer who may be referred to as 'client', 'purchaser' or 'homeowner'. Domestic and overseas construction supply chains are under significant pressure due to the ongoing global COVID-19 pandemic, leading to increasing product lead times, material shortages and rising cost escalation.

Fixed-price contracts for residential new builds

Fixed-price contracts for residential new builds set out the total costs of a new build upfront as a 'fixed price' based on a buyer's specifications and plans for their site. Typically, the contract will provide a fixed price to cover the cost of services, labour, materials, equipment, temporary works with other works, and items that are necessary to carry out and complete a new build process.

These contracts usually provide the benefit of clearly stating what is and is not included in the fixed price, giving buyers greater certainty about the cost of their new build. It is these elements of the contract that give rise to the term 'fixed-price contract', rather than any specific term of the contract guaranteeing that the price will not change.

Ways additional costs can be passed on to the buyer

In fixed-price contracts for new builds additional costs are usually provided for in three different ways:

- Provisional sums
- Cost fluctuation clauses
- Variations.

The terms and conditions included in a fixed-price contract will determine the extent and means by which a developer may pass on additional costs beyond the agreed 'fixed price' to the buyer. The three key mechanisms for passing on cost increases under fixed-price new build contracts are discussed below.

Provisional sums

Provisional sums are typically used where there is insufficient information available (e.g. incomplete design) to provide a fixed price for the work. A 'provisional' or estimated sum is allocated within the contract price to the specific element of building work to reflect the current estimate for that work. However, the contracting parties acknowledge that the sum is provisional, and the buyer may need to pay more if this sum is exceeded for carrying out the work covered by a provisional sum.

It is important for buyers to understand the extent to which the 'fixed' price of a new build is based on provisional sums. This is because greater uncertainty about the overall cost of the new build will arise where the price includes a large number of (or significant value) provisional sums.

Cost fluctuation clauses

Residential construction contracts, unlike most civil engineering and construction contracts, typically provide for cost fluctuation adjustments for supplies (e.g. labour, subcontractor costs or materials). Cost fluctuation provisions allow for the original contract price to be adjusted by fluctuations in price for the specified supplies during the build to determine the final contract price. There are usually conditions included in the contract which state when cost fluctuations may be taken into account.

An example of this is the Certified New Zealand Builders Association Inc standard form fixed-price contract for residential buildings. In this contract, cost fluctuations may only be charged where the increases were not reasonably foreseeable by the builder at the time the contract was signed. The increases must also have the effect of eroding the builder's profit margin, and they must be able to substantiate the increase by reference to written evidence of the subcontractor or supplier pricing that formed the basis of the original contract price and the later final price.

Cost fluctuation clauses with conditions such as those included in the Certified Builders contract provide a higher level of protection and certainty for the buyer around whether additional costs may be passed on. In the current climate of rapidly increasing costs of

Residential construction contracts, unlike most civil engineering and construction contracts, typically provide for cost fluctuation adjustments for supplies (e.g. labour, subcontractor costs or materials).

building materials, particularly those driven by the ongoing global COVID-19 pandemic, a requirement for the increases in cost to be 'not reasonably foreseeable' could prove difficult and therefore reduce a developer's ability to pass such increases on.

Other fixed-price contracts such as the Master Builders RBC1-2018 (New Build) do not contain as many conditions restricting when additional costs can be passed on to the buyer. This contract provides that where a developer incurs additional costs, then they are entitled to an adjustment of the overall price of the contract. This can initially be done without evidence of the additional cost. The developer can still pass on the additional cost, even if the buyer disputes it, provided the developer shows the cost is the actual and reasonable cost to the developer plus a margin.

From a buyer's perspective, it will be important to understand the scope of any cost fluctuation clauses before agreeing to the contract, and to negotiate with the developer if conditions for cost fluctuations do not seem reasonable.

Variations

Parties may be able to address additional costs during the new build through the variation process in their fixed-price contract. This can allow the buyer greater control over whether they accept a price increase. Variations are generally described as changes to the work required under the contract. These are typically instructed by the buyer and may include an increase or decrease in the quantity of work, additional work, omission of work, or changes to the type or quality of any material or work to be performed.

An example of this form of fixed-price contract is the NZIA National Building Contract (Short Form 2016) typically used for small works projects such as a one-off residential build. In this type of contract, any increase in costs caused by difficulties obtaining materials could potentially be a variation. However, the builder is only permitted to carry out the variation with the buyer's written direction, with the buyer not required to approve any request. Essentially, this means that the builder can only claim for increased costs with the buyer's approval.

This form of contract can provide greater certainty around cost for buyers due to the greater control they have in approving a price increase before it is incurred. Buyers should, however, bear in mind the builder's ability to dispute their decision not to approve a request for a variation. Also it may be that practically there are few alternative options available, meaning the buyer may be stuck with agreeing to the increased cost.

Can a contract be cancelled if additional costs become too high?

Cancellation is usually not an option where additional costs have exceeded a buyer's intended budget, as cancellation for this reason needs to be mutually agreed. Even if a developer is willing to agree to the cancellation of the contract, it is likely that compensation for the developer's time is still required. An alternative solution where additional costs are starting to exceed a buyer's intended budget may be to reduce the scope of the work being provided, or make variations to the design to reduce the cost of other parts of the work.

Buyers may also seek to include a clause that permits cancellation should the total price of the new build exceed a certain threshold, but a developer would also need to agree to this type of clause for it to be included in the contract. Developers will likely be reluctant to do this as they would face more financial risk.

An alternative solution where additional costs are starting to exceed a buyer's intended budget may be to reduce the scope of the work being provided, or make variations to the design to reduce the cost of other parts of the work.

Other implications of additional costs during new build process

Mortgages and borrowing

The risk of additional costs arising later in the build process is also something to consider when arranging a mortgage. Additional costs may cause buyers to exceed the limit of what they are eligible to borrow, causing issues around how these costs will be paid for. Banks may also be more reluctant to loan when cost fluctuations, wide-ranging variation clauses or substantial provisional sums are included in new build contracts due to the increased cost uncertainty these provisions may create. Banks could potentially require a larger deposit to reflect this.

First Home Grants

Eligibility for First Home Grants may also be impacted if additional costs of construction cause the final price of the property to exceed the property price cap for the grant. Where this cap is exceeded, individuals are required to pay back the grant. It is therefore important that first home buyers take into account the possibility of additional costs when buying a new build home, and ensure the price of the property allows room for these costs to arise without causing the price to exceed the grant price cap.

Summary

Fixed-price contracts are not a guarantee that the final cost will be limited to the price agreed at the outset of the contract. It will be important for buyers seeking to limit their exposure to cost increases during construction to be aware of the terms of their contract, and the extent to which it allows for additional costs to be passed on to the buyer. The consequences of additional construction costs may extend beyond simply increasing the final contract price payable to the developer, and buyers should consider how any additional construction costs may impact the financing of their new build.

We recommend that buyers seek legal advice to ensure the form of the fixed-price new build contract they are signing up to provides a reasonable risk allocation for cost increases (and other matters) that may affect their decision to enter into the contract

Acknowledgement

Thanks are due to Miranda Smith, a Law Graduate in Simpson Grierson's Construction Litigation team in Auckland, for her assistance with this article.

Disclaimer

This article is only intended to provide general comments on the subject matter. Specialist advice should be sought about your specific circumstances.

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