

NEW ZEALAND

WINTER 2022

PROPERTY PROFESSIONAL MAGAZINE



SEA-LEVEL RISE AND PROPERTY

PROPERTY MARKET FINANCIAL UPDATE

Residential
construction
industry – a
titanic or an ark?

NEW ERA IN PORTFOLIO MANAGEMENT

Contracts –
the need to
double check

NATIONAL CONFERENCE 2022

CONTENTS

Winter 2022

FROM THE CEO

03 Viv Gurrey

CLIMATE CHANGE

05 **Risks rising with the sea level**

Tim Grafton

GENERAL ARTICLES

11 **Better balance means softer prices**

Miles Workman and Sharon Zollner

17 **The residential construction industry – is it a titanic or an ark?**

Vaughan Wilson

27 **A new era in portfolio management – four insights to help you manage your industrial property portfolio**

Sam Smith

2022 CONFERENCE AND AGMs

31 **Conference 2022 – Changing Landscapes, Moving Beyond Our Bubbles**

34 **PINZ and NZIV AGMs**

38 **Thank you Luke**

PROFILE

41 **Chris Seagar**

LEGAL & TECHNICAL

47 **Mistaken sales potentially still enforceable against vendors**

Rebecca Colby and Nick Wilson

ADVERTORIALS

53 **In changing times data is key**

Nick Goodall

57 **Has there been a clear effect on property values from Transmission Gully?**

Kelvin Davidson

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VIV GURREY

Roll on Conference 2023

Tēnā koutou katoa

It's a real pleasure to be penning this Editorial in the wake of a very successful and unique National Property Conference in 2022. The online conference and AGMs were unprecedented and served to demonstrate what a 'can do' approach to events outside our control can achieve.

The AGMs received high praise from attendees who participated in big numbers, and the conference itself, which saw around 40 speakers spread over six days (mostly mornings), was regarded as a fast-paced event with first-class presenters who kept delegates engaged, entertained and informed.

Of course, the AGMs saw both the Property Institute of New Zealand and the New Zealand Institute of Valuers usher in new Presidents. I have worked closely with Ben Gill (PINZ) and Heather Beard (NZIV) during my time at the Institutes and they are excellent candidates who will undoubtedly continue with the huge efforts and improvements that have been implemented in the past few years.

I also wish to acknowledge PINZ Immediate Past President Luke van den Broek for his three years of service as Board Chair and President. The amount of time and energy he has devoted to the organisation during these most challenging times

has been so generous, despite carrying his own heavy workload and supporting his young family.

As Adam Binns of NZIV departs, he leaves behind a number of initiatives to smooth processes and structure for future Council development. His efforts to continue building NZIV's unique and special identity will reap rewards for years to come. He entered the Presidency at an incredibly difficult time with COVID causing huge disruption to the profession. The number of hours we spent unravelling the government rules and guidelines is something most members never saw. It has been an absolute honour and privilege to work with them both.

But as the curtain closes on one conference, the planning starts for the next. And the next one is set to be a truly international event, with PINZ securing hosting rights for the IVSC/WAVO Global Valuation Conference.

This is being held in June 2023 at the new and purpose-built Te Pae Convention Centre in Christchurch.

The venue is a world-class facility with handy access to the CBD and other attractions. Given our successes in the past few years with conferences we will be pulling out the stops to make sure the 2023 event is something very special indeed.

There are two more groups of people I wish to thank following the recent activities. First, the National Support Team for the huge amount of time they have put into organising the successful AGMs and the conference. It wasn't easy pulling apart one conference to put together another, but the team's dynamism and flexibility continues to impress.

As the curtain closes on one conference, the planning starts for the next. And the next one is set to be a truly international event, with PINZ securing hosting rights for the IVSC/WAVO Global Valuation Conference.

And I want to thank you, our members, because without you our organisation could not function at the high levels it currently enjoys. Your participation and engagement continue to encourage and incentivise the team to strive for even better as we deliver on our promise to constantly improve services.

Nga mihi nui

Viv Gurrey

Chief Executive Officer

Property Institute of New Zealand

RISKS RISING WITH THE SEA LEVEL

TIM GRAFTON

The recent publication of NZ SeaRise data on land movement and sea level rise around Aotearoa New Zealand raises insurance questions. This article unpacks how concerted action now can help keep insurance in place.

Insurance concerns

The recent publications of the NZ SeaRise Te Tai Pari o Aotearoa tool, and much of the media coverage it received, has focused people's attention on whether or not their own homes, or any investment properties they have or are thinking of building or buying, are at risk.

This begs the question: Will I be able to continue to insure my property? For now, and for the next decade or so, the answer is yes. To keep things that way over the long term, the time to act is now.

Gradual and expected events

First, it's important to get one thing out the way. Insurance covers sudden and unforeseen events. Sea level rise is neither. Sea level rise is gradual and expected. Sudden events that are insured include storm surge and flooding, and the risk of both is amplified by rising sea levels.

An increased incidence of such events will lead to increased claims and an accompanying rise in insurance risk, pricing, exclusions and excesses. As the time nears when floods or inundation are expected events, cover won't be available.

NZ SeaRise tool

That Aotearoa is already experiencing ongoing sea level rise is not news. What the new NZ SeaRise tool adds is the vertical movement of the land to give a net rise by location. In some cases, such as parts of the Bay of Plenty, rising land reduces effective sea level rise. In other regions, including parts of Wellington, Auckland and Nelson Tasman, sinking land coupled with sea level rise mean key thresholds may well be crossed by around 2040.

As the time nears when floods or inundation are expected events, cover won't be available.

In the absence of action to reduce the risk to property, around just 30 cm of effective sea level rise can turn today's one-in-100-year event into something to be expected annually. Some parts of Aotearoa can expect to see this happening in around 20 years.

Building resilience

If we act now to build resilience, we have time to reduce the risk and maintain insurance for many decades to come. The Government has been thinking about this and recently published a draft National Adaptation Plan. It does a reasonable job in identifying the issues and sets out a raft of actions, plans and new legislation to address them.

The Government has also tagged some funding to help things along, but there is one big problem – the timetable to implement it is far too slow. Action is needed now. We can't afford to wait even a couple of years for legislation to go through, and longer still to have that take effect before communities make and implement resilience plans.

The first step is to stop making the problem worse. Local government should act at once to prohibit development in high-risk

Local government should act at once to prohibit development in high-risk areas, such as on coastal strips or flood plains.



areas, such as on coastal strips or flood plains. Building in the wrong place not only sets up a problem around future uninsured economic loss, but issues of social disruption, risk to life, and cultural and environmental loss.

On from here, communities have time to plan how to build resilience to sea level rise and other unavoidable climate impacts to protect themselves, their property and their communities. This must start now.

Doing so will require a true community effort that involves property owners, insurers, iwi and local and central government. It must consider social, environmental and economic issues. It must also deal with those who already own property in areas that are, or have been newly identified as being, in high-risk areas. It's also essential to consider the special connection *mana whenua* have with the land.

There is a lot we can do to protect ourselves. Where possible, this starts with making our own properties more resilient. Beyond not building or buying in dumb places, this means changing how we build to cope with future risks. That might mean much enhanced drainage and setting minimum heights for floor levels above anticipated flooding levels.

Infrastructure changes

In some cases, changes will have to be made to Three Waters infrastructure to manage the risk of salt water ingress into drinking water or sewage systems. Storm water systems must also be able to cope with likely future flood events. Much existing Three Waters infrastructure simply wasn't designed with climate change

in mind. We depend on it for our health and for our homes and communities to function.

Many communities will look at building sea walls or other flood defence systems. New sea level rise data will help inform the design of such schemes and how long their useful lives might be. Then it can be worked out if they are cost-effective or a short-term waste of money that would only provide a false sense of security.

It will also be essential to consider natural defence systems, such as managed wetlands, flood plains and river systems, that are designed to manage flooding when it comes. Wetlands and dunes can also protect our coastlines in the face of sea level rise. Permanent planting can help manage flood water, reduce erosion and ameliorate slips. There are already several great examples of effective flood management systems across the motu which serve to protect communities and keep insurance in place and relatively affordable.

Managed retreat

The last adaptive strategy is to consider managed retreat. Here a community decides when and how to move as the risks become too great to sensibly manage. The lead time for this option is long term and the issues around it are complex.

It will need careful planning and may involve the need to acquire alternative land, develop options, such as land swaps, or develop buy and lease-back schemes. Who pays and who benefits, including future generations, all needs to be thought through carefully.

Managed retreat is always likely to be the most disruptive and costly solution, but if the outlook is that relocation will be the only



solution in 30 years' time, we should start planning for it now. Taking this option should not preclude investing in interim adaptation initiatives at the same time. Doing so could result in reduced risk in the meantime and buy more time to develop and implement long-term solutions.

This could mean planning to progressively move out and remove buildings and other community assets, such as roads and services, before they pose a risk to safety or the environment. Local and central government will have a key role to play in deciding how such an approach should be funded.

Some communities may sadly see this situation brought upon them sooner than anyone expected. In such cases, and where they suffer a major insured loss, property owners will have very difficult decisions to make about using any insurance settlement to rebuild or put towards relocation.

Act now

To conclude, insurers have always been in the business of risk management. Unavoidable sea level rise and other climate impacts now mean that everybody should be in that business. Investors should take great care to find out about the natural risks their current or potential properties face and work constructively as part of a community effort to protect them. We have time, but only if we act now 🏡

Managed retreat is always likely to be the most disruptive and costly solution, but if the outlook is that relocation will be the only solution in 30 years' time, we should start planning for it now.



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BETTER BALANCE MEANS SOFTER PRICES



MILES WORKMAN
AND SHARON ZOLLNER

Two big events have taken place over the last couple of months. The RBNZ hiked 50bps on 25 May (as expected) and lifted its forecast for how much higher the OCR will need to go (that was more of a surprise), and the Government released Budget 2022, which included another increase in government spending. We have since tweaked our OCR forecast to be slightly

more front-loaded. While we continue to expect it to peak at 3.5%, we have also centralised some of the downside risks we are seeing to our (still very uncertain) house price outlook. We now expect house prices to fall 11% in 2022 (previously -10%), with a much soggier recovery thereafter. The latter reflects very solid progress in recent quarters towards addressing New Zealand's housing deficit.

Going down

The REINZ House Price Index (HPI) has been posting monthly declines since December 2021 and is now down 4.9% from its November 2021 peak, which has taken house prices back to just above their July 2021 levels. Annual house price inflation is now running at 9.8% (on a three-month moving average basis), much slower than its circa 30% pace recorded over the latter half of 2021. And in a few short months this measure is expected to be in negative territory too.

Recent developments

Housing headwinds are well understood and in a broad sense haven't changed all that much in recent months. We have, however, seen the RBNZ's inflation-targeting grit ratchet up in May, and that's led us to change our OCR call towards a little more front-loading. We now expect one more 50bp hike in July (25 bps previously), but continue to see a 25bp hike in August, and each scheduled opportunity thereafter to February 2023. That is, we've made no change to our expectation of how high the OCR will need to go (3.5%), but we have brought forward when we expect it to get there (February vs April 2023).

While the RBNZ's May MPS forecast (and market pricing) is more consistent with yet another 50-pointer in August, and a higher OCR peak than this, we're expecting to see evidence by August that monetary tightening is gaining traction in taming inflation. And if we're right about that, we think the RBNZ's assessment of spiralling inflation risks vs the risk of a hard landing in the economy will be looking more balanced than it does now. They'll still have a big job to do, with more



hikes in store, but on balance we think the data will lead the RBNZ to re-evaluate the pace at which they need to tighten, reverting back to 25bp hikes from August onward.

But it's all very much dependent on how inflation pressures evolve and at the moment the RBNZ is right to focus on inflation risks and talk tough. The timing for moving back to the more standard pace of +25bp per meeting will depend partly on whether the RBNZ requires actual Consumer Price Index (CPI) inflation to turn downward first, or whether a definitive turn in the higher-frequency indicator data will provide sufficient comfort.

Looking at the other big event in May, Budget 2022 had only a few new policies directed at housing – hardly a surprise given the epic focus on health and climate change. Possibly the biggest piece of new housing news in Budget 2022 was the lift in some first-home grant price caps. Many regions have seen no increase, while others have seen substantial rises, the largest being the \$475,000 lift to \$875,000 in Thames-Coromandel.

Other than that, Budget 2022 was by historical standards a very big budget. Core Crown Government expenses are forecast to be around \$23.5 billion higher over the next four years compared to the Treasury's December 2021 forecasts. That includes a \$7 billion increase in the year to June 2023.

That's an extra 1.7% of nominal GDP the Government is adding to the economy over the next 12 months that wasn't expected at the start of the year. It's a non-trivial amount of money being added to an economy that's already facing significant capacity constraints. All else being equal, this extra demand will add to inflation pressure, meaning

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the RBNZ may need to make room for government spending by hiking the OCR higher than otherwise. That's certainly consistent with the RBNZ's updated OCR forecast.

So what does it all mean for the housing market?

Downward pressure on the house price outlook

All else being equal, higher caps on first home-buyer grants will add to housing demand. However, we think this is likely to have indistinguishable impacts on house prices over the year ahead given:

We now expect house prices to fall 11% over 2022 vs our previous forecast for a 10% decline. We've also baked in a slower recovery.

- How far prices have already moved relative to caps (i.e. the increase may not bring that many additional houses into the fold for first home-buyers), and
- Where general housing momentum is heading right now, with debt-servicing costs increasingly a constraint on would-be first home-buyers, even as house prices fall.

This development may, however, put a floor under how far house prices can fall over the medium term.

But before we get to the medium-term outlook, we first need to get through the coming cyclical forces on housing. In particular, the RBNZ's expectation that it will need to lift the OCR higher and faster than previously thought very likely means higher mortgage rates than otherwise. That's because market expectations for the OCR over coming years are just as important for fixed mortgage rates as the current level of the OCR, and those expectations are of course heavily influenced by the RBNZ's own OCR forecast. Anything that leads

wholesale markets to price in a higher OCR outlook is going to put upwards pressure on fixed mortgage rates.

And that's certainly been the message from the RBNZ this month: expect higher rates, and sooner. Accordingly, we have downgraded our house price forecast a touch. We now expect house prices to fall 11% over 2022 vs our previous forecast for a 10% decline. We've also baked in a slower recovery.

The sharper decline in 2022 simply reflects changes to the interest rate outlook. But the soggy medium-term view is a result of revisiting our estimates of the fundamentals: housing supply vs demand. On that front, downward revisions to the net migration data (and therefore the resident population) have recalibrated our understanding of how quickly the residential construction industry is eroding the housing deficit.

As at Q1 2022, we estimate new housing supply had exceeded new demand by almost 55,000 dwellings since the borders were closed. And if Q1's pace has continued in Q2 2022, then as we go to print the industry will have caught up by more than 60,000 houses. We estimate the housing deficit before the pandemic was somewhere between 70,000 and 90,000 houses. That means at the current pace of building New Zealand could, for the first time in a very long time, have a housing market that's broadly in equilibrium in demand and supply fundamentals. This is at least for the overall number of dwellings, but there will always be some mismatches around the type/size and location of dwellings.

Indeed, it's entirely possible that in a few quarters it might start looking like the New Zealand housing market is at risk of entering

'oversupply' territory. This is not a bad thing when it comes to ensuring there are roofs over the heads of our most vulnerable, but not a good thing for recent first home-buyers who may not see the market value of their property return to the level they paid for it for a very long time.

As always, there are big risks around the outlook for both supply and demand. Residential construction activity could slow abruptly, halting progress in its tracks. In fact, while building consents have been elevated, a sharp slowdown would be consistent with what businesses are saying to us. Time will tell whether consents follow construction intentions to a lower level, or whether the fall in the latter is mainly to do with supply disruptions.

Conversely, population growth could surprise as our borders reopen. The Australian labour market is very tight, which combined with New Zealand's high cost of living and relatively low real incomes could drive a large net outflow of Kiwis across the ditch. If we don't plug that gap with arrivals from elsewhere, the supply-demand balance could improve much faster than we expect, putting further downward pressure on house prices.

Our expectation is that annual net migration will begin to lift very gradually towards the end of 2022, touching 20,000 by the end of 2023 and stabilising at around 30,000 over 2024. That's about half as many net arrivals as in the 2015-2019 era.

Overall, we'd characterise the risks to construction as being to the downside, and the risks to migration as being skewed towards a negative net outflow, at least in the near term. From a housing supply-demand perspective, these risks are offsetting.

The way things are heading, and based on our current forecasts, it's looking like housing supply will be in balance with demand by Christmas (give or take six months). All else being equal, that would dampen house price inflation over the medium term. However, the market will also remain heavily influenced by the likes of interest rate settings, net migration and policy changes etc.

It's still a soft landing with downside risks

We're not the only ones who have updated our house price forecasts this month. Both the Treasury and the RBNZ have published their usual suite of forecasts, including house prices. So how does our outlook compare?

Forecast comparisons are complicated by the fact that both the Treasury and the RBNZ forecast the CoreLogic HPI, while we forecast the REINZ HPI. However, the two measures do tend to move together, so rather than being a case of comparing apples with oranges it's more a case of comparing a Granny Smith with a Braeburn. Our expectation for an 11% decline over 2022 is a tad weaker than the RBNZ's (-8.1%) and quite a bit weaker than the Treasury's (-5.0%).

However, comparing growth rates can be a little misleading, given varying assumptions about the persistence of house price declines. The common theme across these forecasts is that they are all various shades of the same soft landing:

- Our forecast would see the index trough 28.3% above its pre-pandemic (Q4 2019) level in early 2023, with a peak (Q4 2021) to trough decline of 12%

- The RBNZ's forecast would see the index they forecast trough 32% above its pre-pandemic level in early 2024, with a peak (again Q4 2021) to trough decline of 11.8%
- The Treasury's forecast would see the index trough 36.4% above its pre-pandemic level in the second half of 2023, with a peak to trough decline of 7.1%.

So all up, the Treasury's forecasts are the most optimistic, while our and the RBNZ's forecasts are broadly similar – we just expect it all to happen a little sooner than the RBNZ does.

Lastly, we think it's important to note that similarities across forecasts do not make them any more likely to be correct. This is a highly uncertain forecasting environment, and the risks of a harder economic and housing landing are very real. We have no doubt about the ability of monetary tightening to get inflation under control – it's just a question of how high rates need to go to do it, and how much economic (including housing) damage that may require.

But even as the RBNZ is working that out, there's a very real risk that the key data they're watching (core inflation, inflation expectations and the labour market) turn downward too late (given it can be quite lagged) to avoid a hard landing. That risk materialising certainly feels more likely right now than the housing market surprising our forecast to the upside 🙄



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THE RESIDENTIAL CONSTRUCTION INDUSTRY

Is it a titanic or an ark?

VAUGHAN WILSON

Is the residential building industry riding into a perfect storm? There are many challenges and they are significant. Can the market sustain these and still provide affordable homes? Will there be customers willing and able to settle on their own little slice of paradise?

Introduction

For some years, the residential market has seen a boom in all aspects of new and existing homes and sections. House values have increased to unprecedented levels and land values have risen alongside housing. New houses have been in demand and councils and government have been instrumental in reducing minimum lot sizes and intensifying housing density. Central government has also sought more housing in various types of developments for first-time home-buyer schemes, state housing and others.

A big reason for this growth was the historically low interest rates. Low rates around the world have seen significant increases in asset values, such as stocks, real estate, classic cars and just about anything else people believe has a value. Once COVID hit, the world saw rising levels of spending by central governments and people in lockdown at home spending their increased wealth on everything from consumable items to upgrading their properties and purchasing more property. But from such highs come the lows of rising inflation.

Around the world historically low interest rates have fuelled markets and set a fire under house and other asset prices.

The simplest way for central governments to fight this harsh reality is to cool the economy by increasing interest rates.

The residential dwelling construction industry is now facing an uncertain future. Increasing interest rates, a falling housing market (both in values and in demand), spikes in inflation, full employment and various other elements are making this aspect of the economy at risk of collapse. These challenges are discussed in more detail below.

Interest rates

Around the world historically low interest rates have fuelled markets and set a fire under house and other asset prices. For New Zealand, they reached their lowest levels at around March 2021 of about 2.4%. Interest rates are now on the rise, with the majority of rates available at over 5%.

A rough comparison in prices increases over the last decade compared to interest rate ebbs and flows has shown a continued and steady growth, with sudden jumps in house values in the last 24 months. This is partly due to the outcomes of government spending with COVID and partly to even lower interest rates on offer.

In March 2012, the average house sale in Auckland was \$477,000 when interest rates were 5.25% floating, 5.79% fixed for two years and 6.9% fixed for five years (Westpac). House price averages in Auckland doubled by December 2020, with interest rates of 5.35% floating, 3.55%–4.09% fixed for two years and 4.95% fixed for five years. By March 2022 (10 years later), the average Auckland price had increased by 2.52 times to \$1.2 million, with interest creeping to



around 5% for most offerings. It took almost nine years to double, but only two years to increase 50% (50% of the value in 2012).

For Wellington, the news was similar, with an average sale price in March 2012 of \$382,000. It took nine years for this to double and by March 2022 it was 2.4 times higher. For New Zealand, the March 2012 average price was \$357,000. This had doubled by March 2021, and by March 2022 it was 2.39 times higher.

The number of houses for sale has increased markedly since the beginning of 2022 and the prices are subdued, many decreasing. Houses offered for sale in 2021 are now selling in some cases for hundreds of thousands less just 12 months later.

This volatility makes things difficult for the new house market, with rising costs to build compared against falling values of existing stock. At the same time, rising interest rates makes any respective mortgage more expensive to afford. This makes getting a mortgage harder from the bank and affording it also harder, especially when the cost of everyday items is increasing so quickly with general inflation. The market will find its equilibrium, but perhaps this is where the interest paid is cognisant with what was paid under a much lower interest rate environment only a few years ago.

Costs of subdivision and land

Construction of new residential housing relies on land and lots of it. The cost of developing land has increased year-on-year with council and compliance costs rising faster than inflation. Councils argue that there is a significant capital cost of upgrading services to service the Three Waters and roading. Of course, the counter argument is that

the vast improvement in values of these properties once completed provides councils with more local body rates. The installation of electricity lines has also increased significantly.

As a rule of thumb, land used to make up one-third of the total finished value of a property. These days it is common for the land component to be around 50%. Developing land for new residential properties in certain areas has been a roadblock to residential development, and the costs to achieve this in some instances have only been feasible with the changes in intensification rules.

A new infrastructure levy for 2,000 new houses is currently being proposed in Tauranga. The levies are part of the Infrastructure Finding and Financing (IFF) loan scheme. The proposed \$2,500 p.a. per new residence is designed so that local and national governments can avoid debt in paying for new housing infrastructure. Developers are threatening to hold off on developments until this proposal is withdrawn due to the perceived negative impact on development.

Building products

Building products in this country are largely controlled by a few players with very little competition. As New Zealand and the world comes out of the pandemic, there is huge international demand for building products, which has put supply and pricing pressures into the market.

In the second half of 2021 builders struggled to get hold of timber, which was in part due to both domestic and export demand, but also to changes in design and construction. These changes saw external wall framing for new homes increase from the standard 95

Construction of new residential housing relies on land and lots of it. The cost of developing land has increased year-on-year with council and compliance costs rising faster than inflation.

mm (4 × 2) to 140 mm (6 × 2) for increased insulation cavities. This increase meant less lineal metres per log, so more logs per house.

Recently, there have also been critical shortages of Gib Board (a brand name owned by Fletchers but in effect a fire-rated gypsum-based internal cladding board). There are two Fletcher plants making Gib Board in New Zealand, with a third coming on-stream in the future (delayed due to COVID).

Consistent with the hoarding of toilet paper by individuals during the initial COVID lockdowns, large and small users of Gib Board hoarded vast quantities of this precious building product in warehouses across the nation. This contributed heavily to significant shortages and saw Gib Board being resold (legally and illegally) for sums much greater than the normal retail price. Now with no end to these great shortages in sight, projects across New Zealand have

been delayed or put on hold until the sheets can be obtained in reasonable quantities and at reasonable costs.

My own builder had to offload five of his seven staff due to shortages in building materials, particularly Gib Board. Although there is plenty of work, there are no materials to work with, so he found himself haemorrhaging cash to pay wages with no revenue coming in.

Building products coming into New Zealand have also been affected by the worldwide post-COVID building boom. For instance, most of this country's cedar cladding comes from Canada and the demand and prices have exploded for this ubiquitous building product. The massive escalations in shipping costs since COVID have also led to significant increases in cedar cladding for purchase in New Zealand – if you can get it!

According to the Cordell Construction Cost Index from CoreLogic, costs in residential construction rose over 6% in 2021 and are expected to increase a further 10% this year.

According to the Cordell Construction Cost Index (CCCI, formally the CHIP index) from CoreLogic, costs in residential construction rose over 6% in 2021 and are expected to increase a further 10% this year. These increases could easily be higher and are not expected to decrease once the supply of product better meets demand.

Many I have spoken to in the construction industry believe a price of \$6,000/m² (including GST, professional fees and council fees) is the new norm for a good quality, bespoke residence. At 200 m², that puts the price at around \$1,200,000 plus land. Not long ago \$2,500/m² to \$3,000/m² was deemed an appropriate amount for the same level of construction.

New building codes adding cost

MBIE controls the building codes which, unlike resource consent conditions that vary between councils, are the same across New Zealand (in most cases). Updates to the New Zealand Building Code Acceptable Solutions and Verification Methods were announced on 29 November 2021. There is a transition period of one year ending on 3 November 2022, with one slight difference for construction R-values for windows. The three climate zones will be replaced by six zones. Zones 1 and 2 have a further 12 months to adopt the new codes.

In some areas, these changes are the biggest New Zealand has seen in decades. The largest changes will be for windows and roof insulation. Existing double glazing can still be used, but will need to be comprised of a layer of Low E glass to the outside and normal glass to the inside with argon gas between. Aluminium frames must also be

thermally broken. This will involve some complex calculations for each house to demonstrate compliance, including that the windows have a suitable glass-aluminium ratio. Certain aluminium joinery units, like the premium Architectural Series, will not be functional anymore due to a lack of thermal break.

Exterior wall frames will still be at 90 mm. The Government wanted this to be increased to 140 mm, and it was initially thought that this may be a step too far, but this is likely to change over time. The other major change is in insulation to ceilings, with the standard and thickness essentially doubling, which will make it difficult to insulate sloping ceilings where rafters are used as the roof structure. Trussed roofs will be easy enough to comply with as more space is available for the insulation.

All these changes will increase the cost of construction and be passed on to the consumer or final buyer.

Council and LINZ processing capabilities

Councils are short-staffed for processing building consents, resource consents for land development and housing development. LINZ is also short-staffed in coordinating new titles for new land and dwellings/apartments. These delays have hampered construction times and settlement timelines of finished properties, which results in the housing market having increases in pricing for land and finished dwellings. These problems existed before the labour shortages experienced in most sectors of New Zealand and are expected to get worse (see comment below on migration).

Labour shortages

These shortages have existed for some time in the construction industry, particularly for trained and qualified builders, electricians, plumbers and others. They are thought to worsen as the borders open, with many of the young, qualified workers looking to go on their OE, delayed due to COVID. Many are expected to go to Australia where the wages for the construction industry are by and large ahead of New Zealand. MBIE predicts between 50,000 and 125,000 people will leave New Zealand long term.



MBIE also expects a large number of migrants from overseas to fill the skills gaps left by these workers, but to date the borders have remained largely shut for them. Migrants still require somewhere to live, but only a small percentage seek a brand new house when arriving in New Zealand, preferring renting and eventual purchase once they have settled into the country.

The Government has announced an extension to the Apprentice Boost Subsidy Scheme to the end of 2023. The scheme provides \$500 per month to apprentice's employers in various trades for years one and two of their employment.

Changes in finance legislation

Building residential property is only part of the trick – there must also be a ready market purchasing the new properties. The Government has drawn the focus onto first-time home-buyers, with complaints every week about the unaffordability of them jumping on the property ladder due to the housing boom.

In December 2021, the final amendments to the to the CCCFA (Credit Contracts and Consumer Finance Regulations 2004 (Regulations)) came into force, including the introduction of a revised Responsible Lending Code (Code). Once the CCCFA became law in December 2019 it was intended to amend the Regulations, particularly for suitability and affordability assessments.

The proposed changes were released for consultation over 2020 to 2021 and finalised in 2021. The amendments were put in place to protect borrowers from unscrupulous lenders as well as vulnerable

customers. Rather than targeting certain lenders, the reform package was all-encompassing, affecting all lenders.

Lenders adopted the rigid amendments to avoid non-compliance and harsh penalties, which resulted in a significant slowdown in the mortgage market. Before December 2021, the Financial Services Federation (FSF) and the New Zealand Business Association (NZBA) both warned that the amendments would make the lending process more protracted, complicated and detailed, and that less credit would be available to borrowers, frustrating borrowers and lenders alike.

The backlash against the Government was instant and it has responded with a hasty investigation, quickly introducing a fresh round of amendments to try and rectify the damage. Obviously, the end game here is to make more money available to borrowers with a quicker and less invasive methodology to borrow funds.

First-time home-buyers continue to drag behind other borrowers in their share of the number of mortgages and amounts borrowed, which will continue to affect the building industry.

It is early days, and it is still unclear as to how this may ultimately affect the new house building industry. First-time home-buyers continue to drag behind other borrowers in their share of the number of mortgages and amounts borrowed, which will continue to affect the building industry. Many of the new homes will be built to meet this market and small houses on small sites may potentially be left half built and unsold.

LVRs

The Reserve Bank website describes loan-to-value ratios and their recent history as follows:

A loan-to-value ratio (LVR) is a measure of how much a bank lends against mortgaged property, compared to the value of that property. Limits on high LVR residential mortgage lending have been in place since October 2013. The restrictions have been revised over time and were removed in response to the economic impact of the COVID-19 pandemic in 2020 and later reinstated as at 1 March 2021 at the same level as prior to the onset of COVID-19. A further tightening of investors' restrictions took effect on 1 May 2021, and a further tightening of restrictions on lending to owner-occupiers took effect on 1 November 2021.

LVRs have also helped to put the brakes on mortgages and how much a borrower can borrow. Given the significant price levels of housing in New Zealand, and the rather stagnated levels of incomes, this has further hurt the mortgage market and reduced the number of buyers in the market.

Sale & Purchase contracts

It is not uncommon for a Sale & Purchase contract to have a sunset clause. These types of clauses were designed typically for new houses and apartments bought off-the-plan to protect buyers by allowing them to pull out at certain points from a project suffering long delays.

In recent years, developers have been using sunset clauses to increase the sales price of the already contracted property. Developers have argued that prices were increasing so quickly between the date of the contract and the probable date of settlement that they were not making appropriate margins or, even worse, suffering losses. Similar clauses were sometimes added, including a dated condition that the vendor (developer) was satisfied the development was 'feasible'. The vendor does not usually have to disclose any reason for declaring it infeasible and cancelling the contract.

Developers have been using these clauses to increase the sales price to cover increased costs and make a profit. If the prospective purchaser could not and would not pay the increased amount, the contract was put to an end and the developer was free to sell to a new party. When the housing boom was in full flight and the Fear of Missing Out (FOMO) was rampant, this was an easy case of sell to the next party on the list. All parties knew that the housing market kept increasing, and so as long as they could secure the additional funds they were onto a winner.

Now, developers run the risk of having the clause put to them with borrowers not able to secure the funds (see changes to CCCFA above), or not being able to afford the mortgage due to increases in interest costs. Some developers might be able to claim the deposit



and then sell the finished product to another party. But many sales campaigns had low initial deposits, and with the current recession in the housing market developers may find themselves either holding onto finished product or selling at a discount.

Can developers expect to sell if they put a finished or near finished product onto the market? Could they expect to get the price they need to make a profit?

Other variables

Other variables affecting the construction and price of new residential houses include:

- The impact of the Ukraine war on freight, the cost of fuel and the availability of products
- Stressed developers/contractors and their businesses failing
- Omicron's impact on sickness in the labour force and the lower productivity this brings.

Conclusion

Rising prices for new land due to the costs of subdivision have been largely brought on by increasing costs and compliance within local councils. Rising costs of construction can be attributed to an increase in wages to retain and attract qualified and skilled tradespeople, a lack of consistent stock levels, and the escalation in the cost of building materials as a result of the pandemic.

Increasing roadblocks in attaining finance with amendments to legislation and changes to LVRs will continue to frustrate the mortgage industry. The rising costs of borrowing from rapidly increasing interest rates, which make monthly repayments more expensive, are also adding to the woes of the residential construction market. This market is further hampered by the rising rate of general inflation and the falling values of the general housing market.

So where does that leave developers of new houses and apartments? To date, there have been several construction firms and developers go into liquidation, with some having taken the deposits of unsuspecting customers seeking a brand-new home. It is

expected that many more will follow, particularly those that are poorly capitalised and have lived off the sale of the last development to help fund the next one.

Under-capitalised firms are heavily exposed to changes in costs, delays in construction and delays in settlement. They are also exposed to unsold stock sitting waiting for a buyer. It seems unnatural that the cost of a new home keeps increasing when its second-hand stablemate, often adjacent, is falling in value. As the environment continues to challenge builders and developers, and these companies go into liquidation, clients who have paid deposits and milestone payments run the risk of their new pride and joy not being completed. They could find themselves with an incomplete residence and needing to secure a new contractor to complete the work.

While there may be buyers willing to pay more to get a new home of their design, even if it costs them more than a similar existing home, the banks' policies are that they will only loan on market value, thereby reducing the amount many people can borrow. As a result, the gap between the price of construction and value is widening. This gap could easily turn into a vast chasm, swallowing up borrowers and developers alike 🏠

Rising costs of construction can be attributed to an increase in wages to retain and attract qualified and skilled tradespeople, a lack of consistent stock levels, and the escalation in the cost of building materials as a result of the pandemic.



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A new era in portfolio
management

FOUR INSIGHTS TO HELP YOU MANAGE YOUR INDUSTRIAL PROPERTY PORTFOLIO

SAM SMITH

Businesses with an industrial property footprint need to focus on what they do best, whether it is manufacturing, retail or transport.

A new approach needed

While many businesses seek the expertise of a portfolio manager to help manage and get the most out of their assets, the traditional property portfolio management sector has not kept pace with the wider supply chain industry.

Over the last decade, supply chains and the retail landscape have become much more complex and nuanced, with the rise of e-commerce shifting the dial on industrial property requirements.

Traditional portfolio management services of database monitoring and tracking of critical dates do not cut it anymore. To keep up with the rapidly evolving supply chain sector, portfolio management must encompass supply chain strategy and the optimisation of the overall network. Future-proofing assets must also play a role in portfolio management.

This new approach requires a different set of analyses that consider the whole business operation and the strategic objectives of the business. A whole variety of factors from network strategy to the design of the facilities and automation need to be taken into account, and not just a single lease or critical dates.

Rising demand for industrial property

The rapid rise in e-commerce and the corresponding need for distribution centres has fuelled the demand for industrial property. This in turn has highlighted the link between supply chain and property requirements, especially over the last two years as manufacturers and retailers grapple with inventory levels, having the correct amount of stock on hand and, most importantly, where to store it.

Demand for industrial property is the highest it has ever been, with vacancy rates across some parts of the country sitting below 1%.

Demand for industrial property is the highest it has ever been, with vacancy rates across some parts of the country sitting below 1%.

Whether your industrial portfolio has grown, or you are looking at how to optimise your existing footprint, managing your portfolio correctly is crucial to overall business performance.

Managing complex industrial facilities

The proliferation of automation and advanced systems in the industrial property market means there is opportunity for these assets to become much more sophisticated and complex. Within New Zealand, some businesses are now taking on significant capital investment in their industrial properties to create greater efficiencies in their operations.

While some businesses are signing short-term leases to create flexibility in their operations, some should consider committing to longer-term leases and capital investment in automation through designing solutions that future-proof them.



With these long commitments, the property needs to be managed in a way that continually sets up the operation for success.

Portfolio management should no longer just be about annual reviews and benchmarking. A good portfolio manager should know about, or seek advice to understand, the warehouse operations and find areas of continuous improvement. This could be identifying new ways to optimise operational flows or adopting new technologies into the warehouse design.

Optimising the whole operation

Industrial property has fundamentally changed and it is now more than ever intertwined with optimising operations. The review of a property should go beyond assessing whether a business renews their lease or finds a new solution – it is an opportunity to review their whole operation.

In this era of rapid changes and advancements in supply chains, this review period presents a prime opportunity to assess the network strategy and identify areas of continuous improvement. These areas could span across all components of an operation, from improvements in warehouse design to a freight and logistics diagnostic and inventory planning optimisation.

Future-proofing through automation

Alongside optimising operations, future-proofing assets should also be front of mind for property portfolio managers and occupiers alike. Automation should be a key consideration and its uptake is on the rise.

Even businesses with a modest industrial footprint can reap the rewards of automation, which does not always have to be on a grand scale.

Many New Zealand businesses are considering incorporating automation solutions within their industrial property sites as a measure to reduce labour costs, optimise space, increase efficiency and, crucially, accommodate future business growth.

The warehouse automation sector is a rapidly growing market, with Reports and Data last year reporting that the global logistics automation market will reach USD\$120 billion by 2026.

Even businesses with a modest industrial footprint can reap the rewards of automation, which does not always have to be on a grand scale. There are a range of solutions available, from simple technology (such as pick and putwall processes, vertical and horizontal carousels) to more advanced solutions (such as automated storage and retrieval (ASRS) at the pallet, carton or unit level).

The efficiencies created by automation are hard to ignore. A manual warehouse needs 40-50 pickers to process around 20,000

orders an hour. An automated warehouse using robots or shuttles will do the same work with only one to five pickers.

We still have a way to go in incorporating automation into industrial property. Most warehouses in this country and supply chain systems are outdated or not properly suited to the rapidly changing New Zealand retail, transport and infrastructure landscape. Those tasked with portfolio management have a role to play in bringing these sectors up to speed.

It's clear that property portfolio management has evolved to become more than just about maximising the value of an asset from reducing property expenses. It is an opportunity to work the asset harder to create more efficient and optimal operations, align property requirements with supply chain strategy, and ensure the business is prepared for the future 🏡

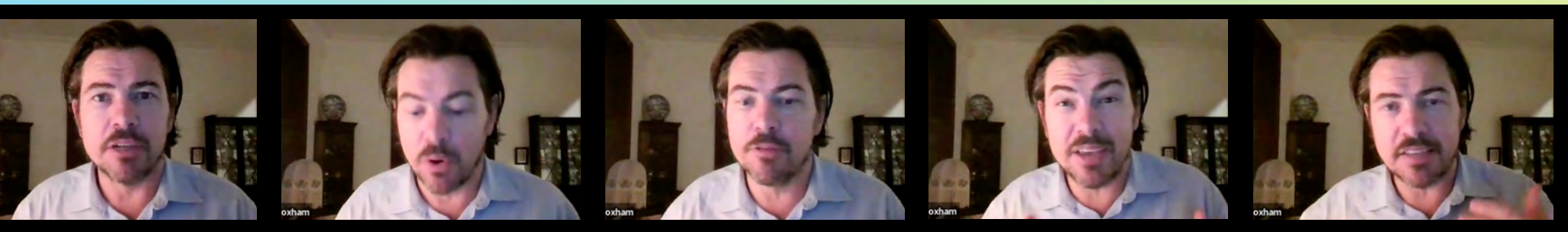


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Conference
2022

**CHANGING
LANDSCAPES,
MOVING
BEYOND OUR
BUBBLES**





A unique event that brought together more than 300 professionals to hear from national and international experts on property and the economy.

Held online for the first time ever, members embraced the opportunity to complete their Continuing Professional Development (CPD) in ways that worked for them. Spread over a couple of weeks, and three mornings a week, the programme was designed to accommodate busy working lives, and things like school drop-offs.

The feedback has been exceptional.

Property Institute members have long been early adopters of technology, and that enthusiasm was on display as they logged into the conference, engaged with each other, and listened to first-class presenters who are leaders in their fields. All up, delegates heard from nearly 40 speakers.

A special addition was the series 'Afterburner' presented by former fighter pilots who offered attendees their thoughts on high performance, situational awareness, working as a team and adapting to circumstances.





The conference also attracted top commentators on the economy. Paul Bloxham, HSBC's Chief Economist from Australia, Cameron Bagrie, a well-known local number cruncher, Paul Little from the CTU, the Reserve Bank and many others.

We heard from the World Association of Valuation Organisations (WAVO), the International Valuation Standards Council (IVSC) and the Australian Property Institute (API), giving our Kiwi members a real taste of what's happening around the world for property professionals.

Those with a thirst for technical learnings were not disappointed either, with sessions including climate change, the emerging importance of Environmental Social Governance (ESG) reporting, water and much more.

We had political representation from Opposition Leader, Christopher Luxon, and Housing Minister, the Hon. Megan Woods. Also on hand, frontline business lent their views, among them

Rob Fyfe, John Chow, Sir Ian Taylor and Naylor Love's Rick Herd. It's unlikely such a strong line-up of speakers could have been convinced to make the journey to a face-to-face conference, and members clearly understood that, registering in very strong numbers to take part in this one-off event.

But, as always, the end of one conference signals the beginning of planning for the next. Conference 2023 will be at Christchurch's Te Pae Convention Centre between 7 June and 9 June. It will be a truly international event, following the Property Institute's successful bid for hosting rights to the WAVO/IVSC global congress. Te Pae is a world-class venue that's been heavily booked following its opening at the end of last year. The PINZ and NZIV team has been able to secure one of the few remaining slots in mid-2022 and there is a real drive to make this conference something very special.

There is no better place in the country to showcase New Zealand. Watch this space 🏠

PINZ AND NZIV AGMs



New Presidents

There has been a changing of the guard at the top of the Property Institute of New Zealand and the New Zealand Institute of Valuers following this year's online AGMs.

Ben Gill has formally been appointed as PINZ President following the departure of Luke van den Broek, while Heather Beard has been appointed by Council to take on the NZIV Presidency following the decision by Adam Binns to step down.

Ben and Heather both serve on the PINZ Board (Heather also the NZIV Council), and both have previously been part of the Institutes' Future Leaders programmes.

Life membership announced – Chris Seagar

Life membership is the highest honour the Institutes can bestow on a member and recognises their outstanding contribution to the organisation, profession and broader industry.

This year's recipient is Christopher Neil Seagar FPINZ/FNZIV (Life). Chris qualified with a Diploma in Urban Valuation from Auckland University in May 1972 and became a Registered Valuer in 1974. He was elevated to Fellow of the NZIV in 1998.

Chris served on the NZIV Council as the Northern Region Councillor from 1996 until 1999, and he was one of three Directors appointed to the newly established PINZ Establishment Board.

From 2000 to 2002 Chris served as a Director on the PINZ Board where he played a fundamental role in shaping the Property Institute. He was elevated to the position of President of PINZ and Chair of the Board of Directors in 2003.



Chris is the Principal Valuer of Seagars (Auckland) Limited Registered Valuers and Property Advisors, which employs 25 valuers across two offices in Auckland. His experience in private practice has encompassed a wide range of valuation and property advisory work for the private and banking sectors of the property industry over the past 48 years.

He has also specialised in airport valuations, including the commercial assets and land at Auckland, Christchurch, Queenstown and Wellington airports. Other areas of specialisation have been in the valuation of specialist assets (including the education assets of AUT in Auckland, several major marinas and seabeds throughout the Auckland region) and of a number of significant coastal developments (including golf courses and resorts in Auckland, Northland, the Coromandel and Hawke's Bay).

Chris has been appointed as expert or arbitrator in numerous valuation-related disputes and has appeared as an expert witness in various judicial hearings on a wide range of matters.



2022 Fellowships



Martyn John Craven
FPINZ/FNZIV

Martyn became a Registered Valuer in 2002 and is currently an Associate Member of the NZIV and a Senior Member of PINZ. He is also a member of the Land Valuation Tribunal in Taranaki and a Professional Member of the Royal Institution of Chartered Surveyors.

He has been involved with the PINZ/NZIV Rotorua and Taupo branch for seven years, where he was previously Chairperson until 2020, and currently serves as Treasurer.

Martyn remains in a full-time senior valuation role within TelferYoung. He has a wealth of experience and has become a specialist in forestry, farm valuation, telecommunications and litigation.



Raewyn Maree Fortes
FPINZ

Raewyn has been a member of PINZ for 24 years, has served on the PINZ and NZIV Manawatu Branch Management Committee for seven years, and was the Vice-President of the branch from 2002 to 2003. She also sat on the Property and Valuations Standards Board in 2012.

Raewyn is currently employed by Auckland Transport where she is a senior technical property specialist and advises fellow property professionals on a range of transport and infrastructure-related matters.

From 2001 to 2011 she was a Lecturer in Valuation for Urban Property at Massey University where she was involved in organising seminars for PINZ members.



Graeme David Berryman
FPINZ

Graeme has had a long and distinguished career in commercial and residential property management, having become an Associate of REINZ in 1969 (the youngest ever Associate at the time), a Registered Valuer in 1982 and admitted as an Associate Member of NZIV in 1983.

He has been involved with David Berryman Limited since 1967 and been the company's principal salesperson, valuer, property manager and Managing Director. He established David Berryman Nationwide Real Estate Limited in 1979 and has served at various times as Director, Treasurer and Secretary.

During his career, Graeme completed a large number of substantial real estate sales, valued a wide range of property interests throughout West Auckland and managed a number of commercial properties of all sizes 🏡

THANK YOU LUKE

The Property Institute AGM in 2022 brought the tenure of President Luke van den Broek also to a close. The following are excerpts from a presentation made by PINZ Chief Executive Officer Viv Gurrey:

It has been my privilege to work with Luke for almost three years. Luke has committed time, energy and dedication to serving our organisation. Today I would like to mark Luke's incredible contribution to our membership.

'Our premise of marketing for PINZ is based on building incredible careers and his is no exception.

'I'd like to offer a brief overview of Luke's PINZ career to date, which should serve as an inspiration for our future leaders as they capitalise on the opportunity they have been offered to make their mark. A fantastic example of building an incredible career.

'In August 2012, Luke was awarded MPINZ and in 2015 was appointed Young Leader to the PINZ Board.



Luke has made his mark by laying strong foundations and paving the way for an inspiring future.

'The next year saw Luke awarded Young Property Professional of the Year, the same year he was elected Southern Regional Representative to the PINZ Board. In 2017, he advanced to ANZIV, and SPINZ in 2018. Later that year, Luke was appointed Chair of the Finance Audit and Risk Management Committee and in June 2019 elected President of the PINZ Board.

'The rest, as they say, is history. Luke has made his mark by laying strong foundations and paving the way for an inspiring future:

- One of his first jobs in the role was to hire and induct a new CEO – and of course I applaud his taste in this regard
- Driving our new strategy and supporting the implementation plan
- And supporting me to rebuild and launch the foundation of what is really a new model in structure, strategy and systemisation.

'The acid test in any governance role is to ask the question "Did you leave the organisation better than you found it?" The answer is, of course, a resounding yes!

'Principles we associate with your leadership Luke are knowledge and learning, communication and teamwork.

'He aha te kai o te Rangatira? He korero, he korero, he korero.'

'What is the food of the leader? It is knowledge, it is communication.'

'Ehara taku toa I te toa takitahi, engari he toa takitini.'

'My strength is not that of a single warrior, but that of many.'

(Pāterangi of Ngāti Kahungunu)

'With those words, I would like to make a presentation on behalf of the Property Institute of New Zealand to Luke. This presentation is marked as a symbol of strength – the toki.

'Worn as a symbol of strength, the toki carries with it deep symbolism associated with mana, reverence, strength and bravery.

'This association links back to when toki blades were used as a tool and had to be strong so not to break. Also, only chiefs with strength and mana could wield the toki poutangata. Today, toki pounamu are often gifted as a celebration of courage, determination, success and bravery, as well as to link the past to the present with reverence and respect.

'Luke on behalf of us all – please accept this symbol of strength as a reminder of your contribution and a celebration of mana.' 🙏

Viv Gurrey

Chief Executive Officer

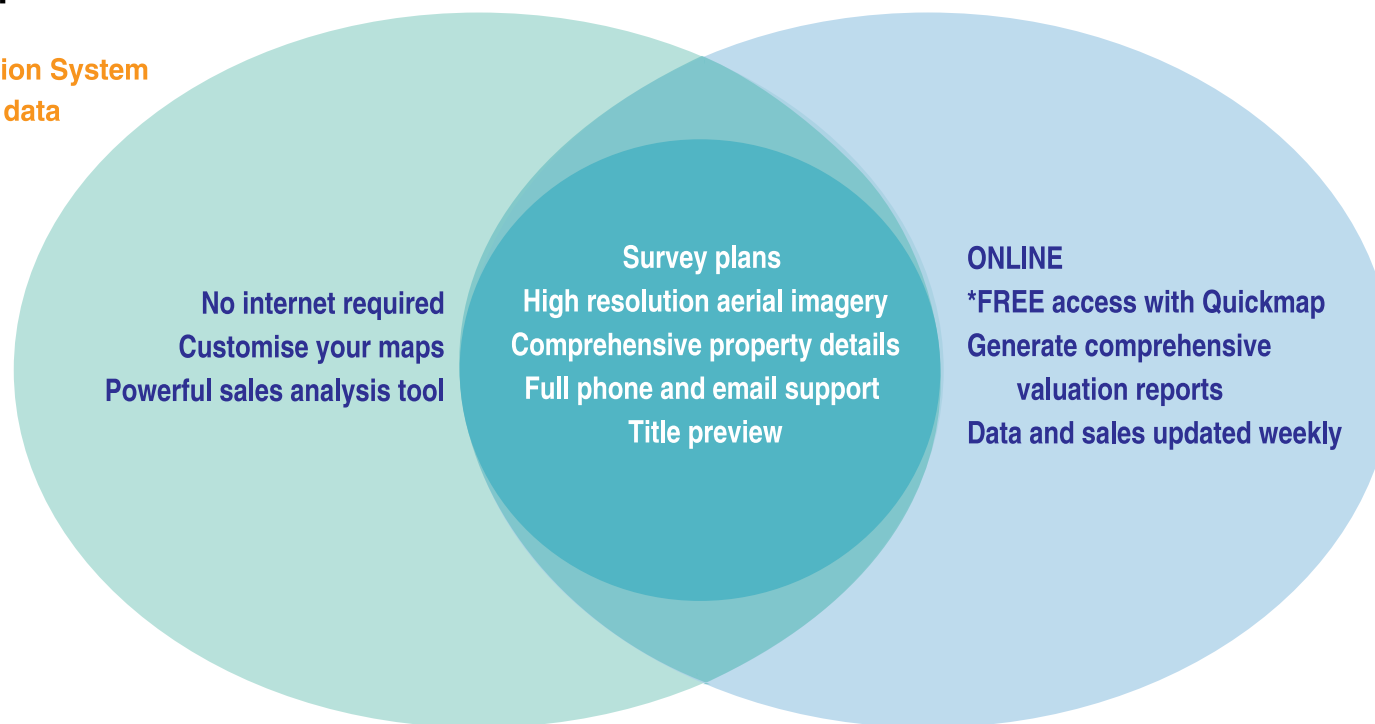
Property Institute of New Zealand

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CHRIS SEAGAR

**This profile looks at the life and career of
Chris Seagar FNZIV (Life) FPINZ (Life)**

Private practice

Chris has been a practising valuer for the past 50 years and is currently the Principal Valuer of Seagars (Auckland) Limited. He qualified with a Diploma in Urban Valuation from Auckland University in 1971 and registered as a valuer under the Valuers Act 1948 in October 1974. He was made a Fellow of the New Zealand Property Institute and the New Zealand Institute of Valuers in April 1998 and was recently awarded Life Fellowship of both Institutes at their AGMs held in June this year.

The valuation firm of Seagars, which Chris originally founded as CN Seagar and Associates in 1981, currently employs 25 valuers in two offices in Auckland. He has been a Director of Seagars since its incorporation in 1994 until 2019 and has based himself in the Auckland office of Seagars since 1986.



In those days the valuation course was run in conjunction with the School of Architecture from wartime army barracks in Symonds Street.

Chris attended secondary school at Selwyn College in Auckland and enrolled in the Diploma of Urban Valuation course at Auckland University in 1969. In those days the valuation course was run in conjunction with the School of Architecture from wartime army barracks in Symonds Street. Valuation lecturers were drawn from senior practising valuers in Auckland, including Fred Noble, Bob McGough and JD Mahoney.

The diploma was a three-year course and during his second year, and after a short stint at the Auckland City Council, he was offered a job at JBL Consolidated Limited by Neil Darroch. Chris completed his studies while at JBL and recalls it as an exciting period when he learnt a lot about property and property development and rubbed shoulders with some great characters in the industry.

When Neil Darroch left the company to set up in private valuation practice in 1971 he asked Chris to join him working on the North Shore. In the seventies the property market and valuation industry

were both in growth mode, with most of residential lending being made under the Trustee Act 1956 requiring a registered valuation.

Chris received registration in 1974, and because of his expanding work in the South Auckland market he established an office of NK Darroch and Associates in Hunters Corner in 1976 which he managed until 1981. During this time he took leave of absence for a year to tour overseas through Canada and America en route to London, and thereafter through Europe with Vicki who he returned to marry in New Zealand at the end of 1979.

When Darrochs became a National Valuation Partnership in 1981, Chris founded CN Seagar & Associates based in Hunters Corner and over the next five years the practice was expanded by the arrival of Michael Clark, Geoff Kingstone, Joseph Gillard, Warren Priest and Ian McGowan. In 1982, they moved to new offices above Bayleys Real Estate and then, encouraged by Graeme Bayley, Chris opened an Auckland Office in Symonds Street in 1986 where he was joined by Ian MacGowan and Arthur Appleton and two new graduates, Ian Colcord and Oscar Westerlund.

The sharemarket crash of 1987 took place the following year, and although it did not immediately impact the property market, by 1990 the inevitable combination of corporate failures and finance limitations was weighing heavily on the market and property values were under significant pressure. Chris recalls it was during this period that the major banks tightened their lending criteria to include the requirement for a higher level of disclosure and information from valuation reports. The banking clients were setting higher reporting standards for valuers.



The continued growth of the firm during this period resulted in a relocation to new offices in Kitchener Street in 1992 and after three years a further move to 17 Albert Street. Reid Quinlan had joined as a graduate in 1993 and the total valuing staff in the city office had risen to 10. The market by then was in full recovery mode and there was no shortage of work for the practice from commercial clients and the banking industry.

The 10 years between 1995 and 2005 were extremely busy for the business and Chris personally with his new roles on NZIV initially and then the PINZ Board. There has been one further move since this time to the current offices in Federal Street in 2008, with the Auckland valuing staff having increased to 15 plus support staff. As was the case in 1987, the effects of the global financial crisis, which began in 2008, did not significantly slow the demand for valuation work with banks looking to the valuation industry to provide reliable and accurate valuations instructed independently of the borrowers. It was during this time that the major banks in New Zealand introduced the current residential panel valuation ordering system.

Staff mentoring and supporting graduates

Seagars is now a well-established and highly regarded valuation practice that operates across the Auckland market and in areas of specialisation outside of Auckland. Chris attributes the growth of the practice to the quality and stability of the senior valuation team, including the current Directors and principals, almost all of whom originally began with the business as graduate valuers.

Including the present staff, the business has been involved in training upwards of 40 graduates through to registration over the past 40 years.

The mentoring of young valuers through to registration has been a strength of the business over the past 30 years and remains a primary focus in the current environment with the growing demand for property graduates. He estimates that including the present staff, the business has been involved in training upwards of 40 graduates through to registration over the past 40 years. Providing a professional pathway for these graduates has been instrumental in staff retention.

In today's online market Chris believes that valuers must be given the necessary technical tools to carry out their work. However, an open and collegial environment where assistance can be offered if required is just as important. He has always encouraged an open door policy and is a supporter of delegating tasks, which encourages responsibility and confidence in young valuers.

Support for graduate valuers during the registration process has also become more important in recent years as the bar to

registration is much higher than in his day when an interview was not mandatory. While the availability of so much online information has benefited the valuation profession, he notes that in the role of valuer there is no substitute for setting eyes on a property, as is exercising strong personal communication and management skills when dealing with clients and the public. He would encourage valuers to specialise if they are comfortable doing so as this can provide both confidence and professional standing in pursuing a valuation career.

Major projects

Chris has been closely involved a number of major valuation assignments over the years and there are many that stand out. One was the acquisition and subsequent development of the downtown Auckland portfolio acquired by Viaduct Harbour Holdings and then of the Railcorp land portfolio purchased by the same parties during the 1990s.

In 1995, he was appointed by the Tainui Maori Trust Board as their lead valuer in its historic claim with the Crown over Waikato lands. This assignment which involved other members of the firm took several years to complete, by the end of which all of the Crown-owned lands in the Waikato region had been valued and a number of significant ground leases negotiated with the Crown agencies involved. He was then appointed as lead valuer by other Iwi, including Ngati Whatua in Auckland, Te Arawa in Rotorua and Port Nicholson Block in Wellington, in preparing valuations in connection with their Treaty land claims with the Crown.

Chris recalls that these appointments were both challenging and enjoyable, requiring a close interaction with both the Iwi claimants and Crown negotiators to ensure that outcomes were fair and equitable. He was also able to gain valuable insight into the background of these and other historic Treaty claims.

Another significant assignment began in 1999 with the incorporation of Auckland International Airport Limited when he was appointed to prepare a valuation of the assets of the new Airport Company for financial reporting purposes. Prior to this time airports had not been subject to valuations in New Zealand and methodologies needed to be employed that met both valuation standards and approaches applied to airport assets in overseas markets.

Following these valuations and their application to the calculation of airline landing charges, airport valuation land methodology was to be the subject of considerable debate between airports and airlines and eventually resulted in Commerce Commission hearings. Chris was closely involved in these processes over a number of years, acting for both Auckland and Christchurch International Airports.

PINZ and NZIV involvement

Chris's Institute service began in 1996 when he was appointed Northern Regional Councillor on the NZIV Council. In 1999, he was one of three Directors appointed by the NZIV Council to the newly established PINZ establishment Board following the successful vote to merge the NZIV and Property and Land Economist Institutes in New Zealand with a combined membership of 3,000 property professionals.

In 1995, he was appointed by the Tainui Maori Trust Board as their lead valuer in its historic claim with the Crown over Waikato lands.

He served as a Director on this Board from 2000 to 2002, during which time the constitution and resourcing of the new Institute was undertaken, involving many trips to Wellington and the negotiation of a service level agreement with the NZIV Council. When Chris was elevated to President of the Property Institute and Chair of the Board of Directors in 2003, he attended the AGM of the Australian Institute, after which the Presidents of the two Institutes signed the first joint professional practice guidelines in recognition of each other's equivalent occupation status and to give effect to the Trans-Tasman Mutual Recognition Act 1997.

Chris also attended the Pan Pacific Conference in Malaysia in that year where he delivered a paper on 'Real Estate Professions and Professionalism', and in 2004 visited China with the Australian President to attend the inaugural AGM of the recently formed Valuation Institute of China.

Family life

Looking back Chris remembers this as a very busy period juggling his time between his Institute role, attending to a busy valuation practice and the demands of a growing family of four boys – not to mention his wife Vicki who has a love of travel to faraway places. They have always had a beach property on Great Barrier Island, which has been their summertime hideaway, but in 2008 they purchased a coastal property with a boutique vineyard making a Bordeaux-style Red and Rose as a weekend retreat.

They have since expanded this property with an eye to the future and with the involvement of their eldest son Ben, who studied architecture but has experience in winemaking. Chris reflects with considerable satisfaction on 50 years of involvement in the valuation and property industry and has remained actively involved at Seagars since retiring as a Director in 2020 🏡

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MISTAKEN SALES POTENTIALLY STILL ENFORCEABLE AGAINST VENDORS

REBECCA COLBY
AND NICK WILSON

This article summarises a recent High Court decision dealing with contractual mistake – *Greymouth Holdings Limited v Landon and Glengarry* [2022] NZHC 641 – where a Trust vendor entered into an agreement to sell a freehold title it did not own. Despite the lawyer and trustee acting for the vendor clearly making a mistake by incorrectly inserting the freehold title into the agreement rather than the leasehold title, the agreement may still be enforceable.

Background

A recent High Court decision considered whether an unconditional contract mistakenly purporting to sell a freehold estate instead of a leasehold estate may still be enforceable. While the substantive specific performance proceeding is yet to be heard, Associate Judge Gardiner declined the vendor's application to lapse the purchaser's caveat in a decision on 1 April 2022. It was held that the resulting interest from a mistaken contract is enough to sustain a caveat and prevent the vendor from dealing with their land.

This case highlights the importance of taking care in executing written sale and purchase agreements as an error may not be recognised by the courts, especially in the case of experienced parties.

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Facts

The residential property at 39 Argyle Street, Herne Bay, Auckland (the property) comprised both freehold and leasehold interests, with the right to occupy falling under the leasehold interest. Swanson Limited (Swanson) owned the freehold interest and Dominic Lundon and John Glengarry, as trustees of the Ariki Trust (the Trust), owned the leasehold interest. When the trustees of the Trust initially decided to sell their interest, they intended to obtain the freehold interest from Swanson (and sell both interests together).

Greymouth Holdings Limited (GHL) and the Trust began communications about the sale and purchase of the property. After little success, GHL entered into an unconditional contract direct with Swanson to acquire the freehold reversion interest of the property and advised the Trust of this.

GHL was then presented with an unconditional agreement for the sale and purchase of the freehold interest from the Trust, with vacant possession, for \$5.9 million (the agreement). The agreement was initialled and signed by each trustee. GHL initialled, signed and returned the agreement and paid the deposit not long after. The Trust then realised that the agreement had been drafted in error and that it meant to sell the leasehold interest rather than the freehold interest. The Trust refused to settle with GHL and advised that they would put the leasehold interest in the property back on the market.

GHL believed that it had an equitable interest and lodged a caveat against dealings over the title to the property to protect this interest. In considering the Trust's application to lapse the caveat, the judge held that there were three relevant questions to address:

1. Was there a binding contract between the Trust and GHL?
2. Was GHL potentially entitled to specific performance?
3. Whether the caveat protected GHL's interest.

1. Was there a binding contract between the Trust and GHL?

The Trust alleged that there was no binding contract as the subject matter of the contract was fundamentally mistaken and there was never a meeting of minds. Interestingly, one of the trustees of the Trust (who is also its lawyer), Mr London, gave evidence that he had reviewed the agreement the sales agent had drafted on his phone and failed to pick up that the incorrect title reference was noted.

Associate Judge Gardiner noted that to determine whether two or more parties have reached an agreement, the courts will objectively assess the parties' intentions that are manifested by the externalities of their behaviour. The court will examine the whole of the context between the parties to determine if there is agreement.

Knew or ought to have known the intentions

In determining whether there was an agreement between the Trust and GHL, the judge considered whether GHL knew, or ought to have known, that the Trust did not intend to offer the freehold at \$5.9 million. The judge considered it was 'objectively clear' that the Trust had made a mistake by offering to sell the freehold interest.



Knew or ought to have known of the mistake

- a) The judge considered that the Trust was aware of the fact that GHL already had an unconditional agreement to acquire the freehold interest and, on that basis, a reasonable person would have known that the Trust's position had changed. Objectively, it would be considered strange to also acquire the freehold interest from the Trust.
- b) However, the judge also considered that the offer was written on a standard ADLS/REINZ format and was initialled on each page and signed by the trustees. Further, the trustees are highly experienced property lawyers and a reasonable person would not expect them to first, record an incorrect estate on an agreement and second, execute an unconditional agreement. The judge also considered the price when determining whether GHL ought to have known of the mistake. GHL's original offer for the leasehold was \$3.9 million, and so the jump to \$5.9 million was considered closer to the freehold prices that had been previously discussed.

Overall, the judge was unable to conclude whether GHL knew, or ought reasonably to have known, that the Trust's written offer did not represent its true intention without further evidence from Mr Dunphy (the director of GHL). Associate Judge Gardiner left this to be determined at trial and considered that the main factor that gave pause was the price. As a result, the judge found that there was a reasonably arguable case that there was a binding enforceable contract to support the caveat.

2. Was GHL potentially entitled to specific performance?

The Trust claimed that GHL was not entitled to specific performance because of its conduct, namely, that Mr Dunphy was aware of the mistake and quickly signed the offer to proceed anyway. To defeat a claim of specific performance, the Court would need to be persuaded that GHL knew of the Trust's error and took advantage of it. A lack of evidence meant that the judge was unable to find that the remedy of specific performance was unavailable to GHL.

The Trust also submitted that specific performance would create great hardship. It said it was a rare instance where it was objectively obvious that the Trust made a genuine mistake, and specific performance would impose a great hardship on the Trust. The relevant question was whether it would cause great hardship to the Trust if it was compelled to acquire the freehold reversion interest from GHL. The judge could not reach a conclusion on this.

3. Whether the caveat protected GHL's interest.

The final question for the judge was whether the caveat protected the equitable interest that was claimed. The Trust submitted that the caveat could not be sustained because the text of the caveat was an interest in the leasehold on the basis that the Trust had 'agreed to transfer or surrender the lease estate', when in reality the agreement provided for the sale of the freehold interest.

The judge disagreed with the Trust and noted that the caveat correctly stated that GHL claimed an interest from an unconditional agreement and correctly stated that the trustees owned the leasehold estate. It was not fatal that the caveat explicitly said the Trust agreed

to sell the leasehold, because a sale of the freehold with vacant possession required the sale or surrender of the leasehold, as well to ensure vacant possession can be provided.

Judge sustained purchaser's caveat

Overall, the judge sustained the caveat and declined the Trust's application for it to lapse. It concluded that GHL presented a reasonably arguable case that there was a binding unconditional contract between the Trust and GHL, that GHL was potentially entitled to the equitable remedy of specific performance, and that the caveat protected the equitable interest claimed by GHL.

Contractual mistake

It will be interesting to see how the substantive proceedings unfold. If there is found to be a binding contract at those proceedings, it is possible that the Trust could still succeed in a claim for contractual mistake and have the agreement set aside.

Contractual mistake is now governed by the Contract and Commercial Law Act 2017 (CCLA). To succeed in a claim for contractual mistake under the CCLA, the Trust will need to convince the court that:

- There was a mistake by one or both parties that influenced one or both parties to enter into the contract
- The mistake resulted in an unequal exchange of values, or in a benefit being conferred or an obligation being imposed or included that was in all the circumstances substantially disproportionate to the consideration given

Contractual mistake is now governed by the Contract and Commercial Law Act 2017.




- The Trust did not assume the risk of a mistake under the contract, and
- The Trust was not aware of the mistake before it entered into the contract.

Succeeding in a claim of mistake depends on the knowledge of the parties at the time the contract was entered into. This can be difficult to prove and will depend on the parties' communications, the wider context and what a reasonable person would have thought.

While the vendor's lawyer had failed to pick up the mistake in the agreement in this case, this decision acts as a reminder that a lawyer should always be engaged to check agreements before they are signed. This should act to prevent mistakes, or where not, it will add an extra level of insurance (potentially via the lawyer's indemnity insurance cover) should a party be bound to an agreement that has a fundamental mistake in it.

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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IN CHANGING TIMES DATA IS KEY

NICK GOODALL

As we move through winter, the new phase of the market is firmly entrenched. Sales volumes are down -20% nationwide and by greater margins in all of our main centres, except Christchurch, where better affordability means property demand has been somewhat maintained.



This fall away in agreed sales is a sign of the misalignment between vendor and buyer expectations that has materialised over recent months.

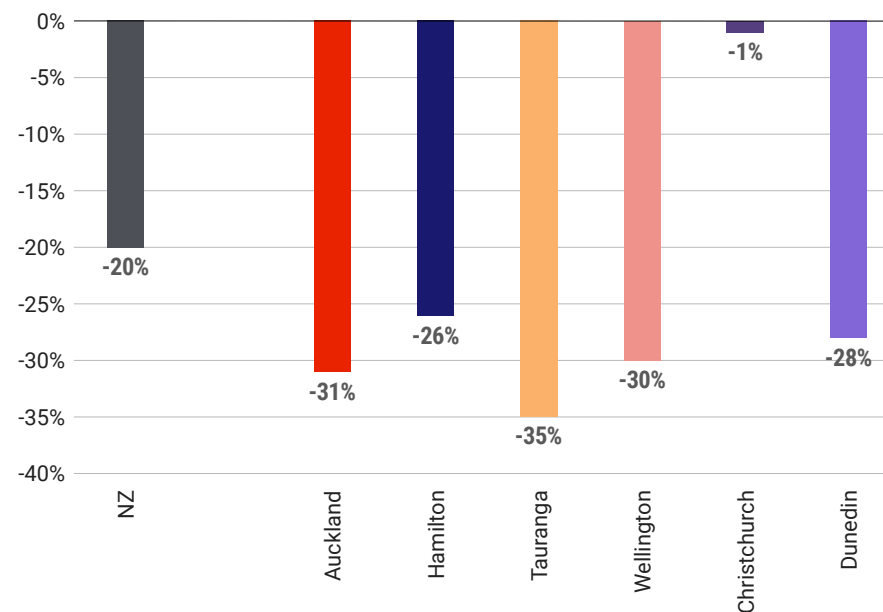
Tightened credit availability and affordability pressures continue to impact the number of active buyers in the market, while those who have secured finance are feeling more empowered to negotiate as properties remain on the market for longer and sell for less than what would have been achieved six to nine months ago.

Of course, that reduction in demand and change in sentiment has also meant values are now in decline across most of the country. In some cases, like Auckland and Wellington City, values are 12-13% below their October/November peak. It's not one-size-fits-all though, so it definitely pays to understand all the local factors influencing property values in your area.

Looking ahead, many of the private sector house price forecasts are becoming grimmer by the week. And it's worth looking beyond the headline percentage figures too. Not only are the likes of Westpac expecting a nationwide -15% fall in values from peak to trough, but the road to recovery also looks very long, with housing values forecast to remain below the recent peak for at least another four years. That is assuming all else remains equal, so it is contingent on the same strict lending environment persisting, which remains highly uncertain.

While we know the Credit Contracts and Consumer Finance Act (CCCFA) changes are to be eased to allow more lending, the impact of increasing interest rates (including serviceability test rates) may limit any rebound in demand. Meanwhile, the Reserve Bank has pushed back any consideration of introducing official debt-to-income limits

**Sales volumes February – April 2022
Compared to long-term three-month average**



Tightened credit availability and affordability pressures continue to impact the number of active buyers in the market.

for now, but they do still remain a possibility in the future. Plus, there's always the possibility of the loan-to-value ratio restrictions being relaxed from their all-time tightest settings.

The economy remains a key focus then, with varying unknowns percolating, many of them probably balancing to the net-negative side of the equation. The full opening of the border seems likely to lead to less demand for property, inflation pressures remain which will see further increases to the OCR, and the construction industry is near capacity and dealing with heightened costs itself.

The main saviour for a controlled downturn is low unemployment and this means a lot of focus on the labour market, which appears to be holding up for now. Ultimately no-one is predicting disaster from these factors, but they will all influence how the market plays out over the next few years.

In the short term, keep an eye on listings volumes, and remember that while we're well above the levels of the last couple of years, this is not due to a rise in people listing their homes – it's simply a reflection of slowing sales and properties staying on the market longer.

There will of, course, be regional differences throughout the downturn too, and with this in mind we'll be updating our regional vulnerability index very soon. This index assesses each city and town's vulnerability to larger falls in value, based on a range of measures, including local economic health, recent investment activity, Trade Me Property search and watchlist activity, and recent credit history. So keep an eye out for that one, and now more than ever make sure you hunt out in-depth, independent data sources so your read of the market is up with the play.

The Reserve Bank has pushed back any consideration of introducing official debt-to-income limits for now, but they do still remain a possibility in the future.



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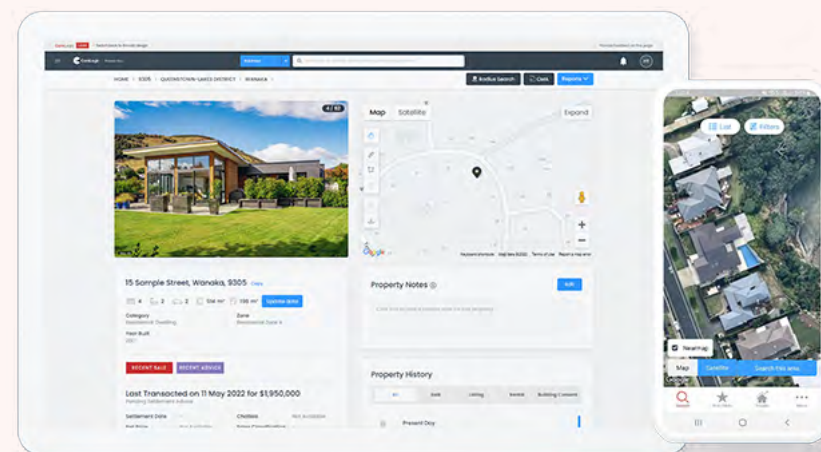
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When it comes to major new infrastructure projects there is always a lot of discussion about the potential spillover benefits for property owners in the vicinity as more locations become better connected to city centres and employment hubs.

KELVIN DAVIDSON

HAS THERE BEEN A CLEAR EFFECT ON PROPERTY VALUES FROM TRANSMISSION GULLY?

When it comes to major new infrastructure projects there is always a lot of discussion about the potential spillover benefits for property owners in the vicinity as more locations become better connected to city centres and employment hubs. And the recently completed Transmission Gully roading development has been no exception. But can we clearly say that it has boosted property values in and around the Kāpiti Coast? And could there actually be negative effects too?

There are probably two key problems with trying to isolate any effects on property values from Transmission Gully. The first is the dates to use – is it best to look at when the public were first made aware of the potential project? Or when construction started? Or much closer to completion? And, second, inevitably we'll never know the counter-factual, i.e. can we really be sure that Transmission Gully has resulted in higher (or lower) property values than if it had never existed?

For our purposes, we're going to focus on two key dates – 'late 2012', when the scheme was announced as New Zealand's first private-public roading project, and 'late 2014', when it actually started. What happened over those periods, and since then too?

Our first comparison is values across the Kāpiti Coast in general (now more commutable to and from Wellington City) versus the Wairarapa, in this case South Wairarapa District specifically where commuting time/ease has seen no change. Unfortunately, any effects here are far from clear. In fact, since late 2012, for example, South Wairarapa average property values have risen by a total of about 220%, with Kāpiti Coast 'only' up by 170%.

Can we really be sure that Transmission Gully has resulted in higher (or lower) property values than if it had never existed?

The long-run patterns for the levels of values and the year-by-year growth rates through time in both areas have been fairly similar too, albeit as noted they cumulate up to a larger overall increase in South Wairarapa. And as Chart 1 shows, neither is there any clear evidence of bursts of growth in the Kāpiti Coast relative to South Wairarapa around any key Transmission Gully dates.

So let's look at a different comparison. Now, we'll switch to comparing median property values within parts of the Kāpiti Coast to other parts of the district, namely, Paekākāriki (now more commutable to Wellington) versus Plimmerton, which has been less impacted by Transmission Gully in travel time saved and is in fact possibly adversely affected (by less through traffic).

There may be some slightly more compelling evidence here. Chart 2 shows that the annual growth rates through time in each town do suggest a stronger burst of enthusiasm in Paekākāriki over 2014-15, coinciding with construction starting on the project. It also

Chart 1: Annual % change in average property values

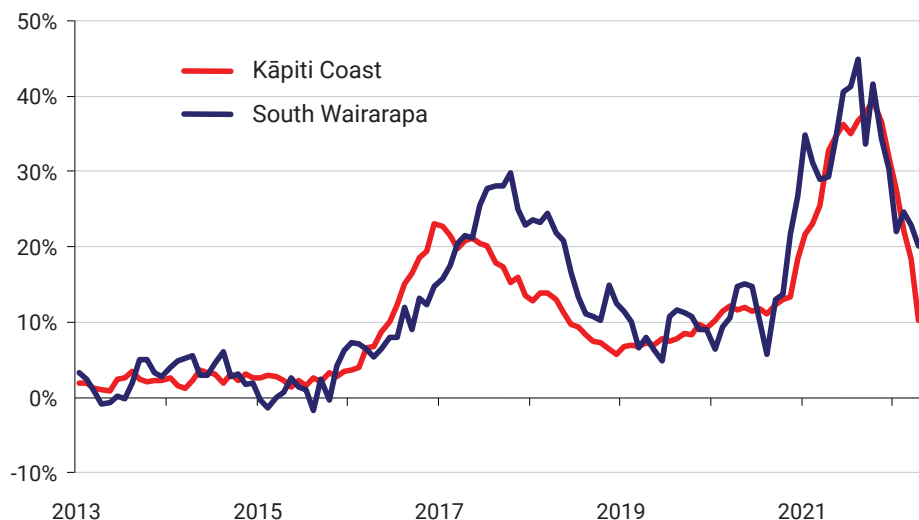
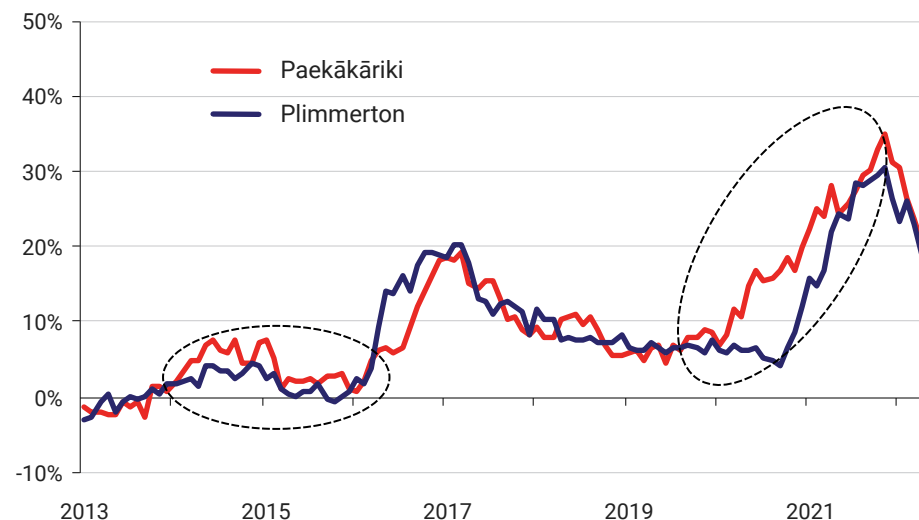


Chart 2: Annual % change in median property values



had another period of outperformance over 2020-21, a time when the scheme was inching a bit closer towards completion.

Overall, Paekākāriki has seen median property values rise by around 140% since late 2014, versus Plimmerton's rise of roughly 120%, although it's also worth noting that if you strip out the post-COVID period (i.e. looking at December 2014 to March 2020) median values in Paekākāriki grew by the same amount as Plimmerton (54% apiece).

On the face of it, then, an area within the Kāpiti Coast that is now more accessible in terms of driving to and from Wellington City does

seem to have had slightly stronger property value growth over the past decade or so than an area less obviously boosted by Transmission Gully. This is what common sense would tell you. Indeed, it seems almost certain that at an individual property level there will have been buyers in areas like Paekākāriki who have offered more to buy a house than they otherwise would have done simply because of the Transmission Gully effect.

Certainly, there is also plenty of evidence available elsewhere of the spillover effect on property values of better transport infrastructure. For example, in 2018 Auckland Council economists estimated

There will have been buyers in areas like Paekākāriki who have offered more to buy a house than they otherwise would have done simply because of the Transmission Gully effect.

that easy walking access to a commuter train station could give as much as a 15-20% price premium to those properties (<https://www.aucklandcouncil.govt.nz/about-auckland-council/business-in-auckland/docsoccasionalpapers/rapid-transit-access-property-values-oct-2018.pdf>). Even owning a property within walking distance of a high-speed bus route seems to provide a price premium, albeit smaller (<10%).

However, as noted above, it's not all one-way traffic (excuse the bad pun). For example, was the phase of outperformance by Paekākāriki relative to Plimmerton over 2020-21 really Transmission Gully, or other factors? We'll never be 100% sure. But it's certainly worth noting that 2020-21 was obviously the new COVID world, where remote working became more prevalent and the need/frequency to actually commute at all was lessened – that could easily have contributed to some people paying more for a property, rather than a Transmission Gully effect.

Also, although Paekākāriki may have seen some upwards house price pressure from being more accessible to Wellington, extra noise/cars could potentially have detracted from the price some buyers have been willing to pay. Similarly, Plimmerton may suffer a little economically because of reduced traffic flows, which would probably also undermine house prices, but some buyers may now be prepared to pay more for a peaceful property.

In the end, without a full-scale statistical study, it's very hard to be sure of the scale of the impact (either positive or negative) of Transmission Gully on the Kāpiti Coast's property values. However, it's common sense to think that some sellers will be pretty happy with the price they got from a buyer who was eyeing up the benefits of a faster commute.

Perhaps the most important point is that we now have the road, and any large infrastructure projects like Transmission Gully are surely progress 🏡



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