The New Zealand Valuer

Vol. 25, No. 7 SEPTEMBER, 1983

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1979 1981 - P. E. Tierney, Tauranga.
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The New Zealand

Valuer

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This Issue

The New Zealand Valuer is issued to all members and Institute students, and is available otherwise by subscription.

Articles, Research Papers and letters are welcomed. They should be typewritten, and addressed to the Editor. Biographical notes of the author(s) should be sent with the manuscript. Opinions expressed by the Editor and contributors are not necessarily endorsed by the New Zealand Institute of Valuers. The Editor reserves the right to accept, reject or abbreviate material at his discretion. Business letters, subscriptions and advice of changed address, should be sent to the General Secretary. Copyright.

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Young Valuers Where Are You?

A glance through any of the past five years' publications of "The Valuer" will confirm our growing young membership. One only has to look at pages and to confirm that we have an increasing number of qualified and associate members, University trained for the main and out there somewhere working.

The Valuers Institute has made rapid advances over the past 35 years. It is recognised as a profession, and admission to associate membership, will henceforth be by presentation of a suitable qualification obtained through one of three established University courses. Some University courses now provide for Honours Graduates, and the qualification may sound impressive to some.

Is it impressive?

The contributors to your national magazine have, to put it bluntly, been around for years. They are highly respected members of your profession, and their contributions have been invaluable. How do they do it? They have to earn a living too. They have families, they have other commitments, and yet they continue to put a great deal of time into your Institute. They are not only the regular contributors to "The Valuer" but they are, in many cases, your Councillors, members of Executive and your Branch Committees.

What has happened to the other members of the Institute, and particularly the young supposedly dynamic up-and-coming valuers? Are they hanging onto the coat-tails of their older colleagues? Are they so complacent and happy with their lot that they work only for money, and can see no need to contribute? Despite their degrees are they so inept that they cannot carry out original investigation on their own behalf and put forward reasoned articles, on any number of valuation subjects? In short, have they got it `too good', and have those that built the Institute made it too easy for them?

We have the good fortune to be living in a time of relative prosperity, tremendous technological change, high education expectations and, from the valuer's point of view, a widening need for expert property advice. Will this need be met by you, the young highly qualified expert in property matters, or will you let the opportunity pass to others setting themselves up as property experts?

There is likely to be plenty of competition out there in the property field in the next few years, even disregarding the possible effects of the well publicised "Competition Bill". Who knows what changes we may see in legislation within the next few years. You have already lost the protection of the words "Registered Valuer" in the Building Societies Act, without your Institute being consulted on the matter. You still have protection of the words "Registered Valuer" in other legislation.

The quality of your work and your conduct in the property advice field must be exemplary at all times, and you must contribute to your Institute by using your expertise and knowledge to refine existing valuation techniques, develop new approaches, challenge the old methods, and inform your colleagues through this publication.

Look at an article in the March issue of "The Valuer" reprinted from the American Real Estate Appraiser and Analyst, under the title "Is the Appraisal Profession Dying?" Many of our members believe that the demand for the property professional in New Zealand is expanding. Valuers are now involved extensively in property advice to lending institutions, insurance companies, large land-based companies, banks, farming co-operatives, Government departments. Many are employed by large property-owning and property-developing companies.

Are our young valuers using the techniques that were developed 20 or more years ago, without question, on a more sophisticated spectrum of work in a changing market, and in a market which requires the development of new skills?

If there are new approaches and techniques being used then they are not generally known, and they have not been aired by their authors in these pages for acceptance or rejection by other Registered Valuers.

Young members of the profession, it is time to sit down, shape up, develop some original thought or get out.

Many of you now have access to the computer, described as the most dramatic technological advance of this century. You can now analyse sales and develop formulae using mathematical training not taught to many of the older members of the Institute, analyse and critically examine existing valuation methods, and develop new approaches impossible only a few years ago.

Read the last paragraph of the article referred to above. All the hallmarks of that prophecy exist in your own Institute. As valuers you have a captive market. Give your captive market what it wants and needs. If you don't, then others will do it for you and may do it better. Spread your knowledge and work for your profession.

In the past few years, there has been a rapid growth in the thirst for knowledge on all property matters. There are now other publications in existence providing very substantial information, comment, and analysis on property matters.

Will your name only be read in this publication when it appears on the membership page? Not everybody has the ability or the dedication to produce contributions on a regular basis and to a high standard. But if not one of our recent University Graduates can put forward for consideration one article over a period of two years, then you are not living up to the expectations and achievements to date of your Institute.

Letter to the Editor

N.Z. VALUER JUNE 1983

DECISION OF VALUERS REGISTRATION BOARD - PAGE 351.

I refer to the last sentence of this Edited Decision and I quote:-

"In view of the Valuers high standing in other ifelds and his previous unblemished record, the Board considers that deregistration is not appropriate in this case but must reprimand the Valuer and impose a fine of $750."

Whilst no argument is made with the second part of the reason for non deregistration it is with some concern that I see the Board advancing "the Valuers high standing in other fields" as a valid consideration in making its decision. The inference seems to be clear - that it was only the combination of the high standing and unblemished record which influenced the Board to not deregister the Valuer and that the unblemished record on its own would have been insufficient. This raises the very obvious question - what on earth has high standing in other fields to do with responsibility to the Public as a Valuer? Does this also place any Mr Very Ordinary Valuer appearing before the Board at a relative disadvantage and if so is this the approach to these matters that is desired by ourselves and the unknowing members of the Public?

The above concern leads to another aspect of Board decisions on these matters - the almost total secrecy surrounding them. No doubt this has been discussed before however in a climate of increasing Public awareness and questioning in many fields it is surely very important that our house is seen to be in order. Does this degree of secrecy contribute to this in a positive way? I am informed that the Law Society circulates members with details and names of those involved in disciplinary hearings of a serious nature with some being reported in leading newspapers. Whilst our affairs are no doubt of minimal Public interest when compared to those of the legal profession I would suggest that a good start would be the informing of our own members of the names of those appearing before the Board on serious charges which should at least eliminate the countless rumours which circulate under the present system.

Without moving into lengthy argument and reasoning I put this to the members of the Institute and in particular to the members of the Board for their reflection and response.

DERALD PETHERBRIDGE.

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Monds, J. F.	Auckland (Rule 14 (2)).
Woodfield, T. E.	Canterbury/Westland (Rule 14 (1)).

DECEASED:

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Hunter, R. G.	Auckland.
Hutchinson, J. F.	Canterbury/Westland.
Marett, A. J.	South Canterbury.
Walshe, T. O.	Waikato.

NZIV Professional Examinations

In the special examinations held at Wellington in July 1983 the following students were successful in obtaining passes in the final academic subjects of the Professional Examinations.

Akuhata, W.	Auckland	- Valuation II Part B.
Brown, I. M.	Waikato	- Construction II.
Carmichael, A. L.	Wellington	- Valuation II Part B.
Chapman, A. G.	Otago	- Valuation II Part B.
Gilchrist, P. W.	Otago	- Valuation II Part B.
Lucas, T. W.	Canterbury	- Valuation II Part A.
Rhodes, J. B.	Auckland	- Valuation II Part A.
Stewart, R. C.	Wellington	- Valuation II Part B.
Wallace, E.	Wellington	- Economics II and Valuation II Part B.
Waller, E. E.	Canterbury	- Valuation II Part B.
Whelan, J. R.	Otago	- Valuation II Part A.

Publications Received and Noted

by the Editor

New Technology Committee Publication No. 2 - N.Z.I.V.:

Publication No. 2 dated July 1983 by R. V. Hargreaves deals with some computer applications to the replacement cost method of valuation. The publication is available through the N.Z. Institute of Valuers, Wellington.

Chartered Surveyor Weekly:

Vol. 2. No. 7. - 17th February 1983. Page 385. The Chartered Surveyor is indicating that standards of practice statements relating to different facets of the profession have been published in the past and will continue.

Urban Real Estate Market in New Zealand:

Research Paper 83/1, published by the Valuation Department, provides an analysis on market transactions during the half-year period up to December 1982, it gives a comparison of general economic indicators and includes a summary on the commercial and industrial market by district. The publication is available through the Valuation Department, P.O. Box 12-343, Wellington North.

National Housing Commission Research and Information Series:

Research papers 82/6 and 82/8. The first relates to a study into the current issues and problems of rural housing in New Zealand. The commission had felt that research in the past has tended to concentrate on urban housing. The report highlights matters which are of concern to rural organisations including the following:

A shortage' of houses for purchase and/or a high demand for blocks of land with houses in place.

A shortage of rental accommodation.

Poor quality or maintenance of houses.

Restrictive subdivisional requirements on rural land.

The second publication is a digest and review update of the research programme from 1976 to 1982.

Not all the publications cover matters of direct interest to valuers, but a number provide useful background reading including the following:

Housing; the capacity to buy.
Paper 76/1, June 1976.

Projected household types and sizes.
Paper 76/2, August 1976.

Housing preferences in New Zealand.
Paper 77/2 and 77/3, December 1977.

Housing New Zealand; - Five yearly report.
National Housing Commission 1978.

The Demand for Housing in New Zealand - Part 2.
Paper 79/5, February 1979.

Rental Housing - Choices and Constraints.
Paper 80/3, November 1979.

Urban Housing; In New Zealand.
Papers 79/6, 79/8, 80/5 to 80/11, June 1979 to April 1980.

Housing Preferences in New Zealand; Tenure.
Paper 80/15, September 1980.

Housing. Turnover, Mobility and Housing Change.
Paper 81/2, November 1980.

New Zealand's Changing Housing Needs - A Seminar.
Paper 1/81, August 1981.

Urban Housing. In New Zealand.
Volume 10, Paper 81/6, September 1981.

Housing; the capacity to buy.
Paper 81/8, November 1981.

To Rent or to Buy?
Paper 82/1, December 1981.

Rural Housing in New Zealand.
Paper 82/6, May 1982.

Strengthening Houses Against Earthquakes:

This publication has been prepared by the Building Research Association of New Zealand Inc., and is described as a Handbook of Remedial Measures.

The book gives a step-by-step description of how to check for potential weaknesses in the earthquake resistance of the house and how to go about strengthening the structure against the effect of an earthquake. The publication is intended as a guide to builders, but it deserves wider publication, to make the home-owner aware of the practical measures that can be taken relatively easily and cheaply, to increase the safety of the occupants of the house and to reduce the damage it is likely to suffer in a major earthquake. The Publication is obtainable from the Building Research Association, Private Bag, Porirua, at a cost of $3.50.

Build:

Publication No. 41, May 1983.; - Discusses the strengthening of buildings against earthquake in relationship to fire protection of structural elements.

Publication No. 43, August 1983. Provides a comment on the use of glass-fibre - reinforced cement (G.R.C.) or glass-fibre reinforced polyester (G.R.P.) as a new cladding for industrial buildings. Pre-cast concrete is no longer used for building cladding in the United Kingdom to the same extent that it was in the 1960s, and it appears that these new products are replacing the heavier, less versatile building material.

The Appraisal Journal:

Volume Ll, No. 1, January 1983. An article by C. H. Wurtzebach and Neil G. Waller on the feasibility, underwriting, and valuation of residential energy components. The authors note that the proportion of energy used in residential buildings in the United States could be reduced to 6% from the current high level of 23%. The subject was then discussed by relationship to mortgages, and how the Appraiser/Valuer will assess the feasibility of energy components.

Conveyancing Bulletin:

Volume 1, Issue No. 2, October 1982 – a comment on "House Check" the comprehensive report available through the newly formed commercial division of the N.Z. Institute of Architects. Also a comment on tenant's right to remove fixtures.

Volume 1, Issue No. 3, December 1982 - At page 27, an article on automation in the Land Registry Offices. Page 31, a report on the case Yianni v. Edwin Evans & Sons (firm) (1982) QB438: (1981) 3ALL ER592. See N.Z. Valuer Volume 25, No. 2, Page 100. The Reviewer, Dr. R. S. Chambers, suggests that the decision would be followed in New Zealand but that the method by which valuations are obtained in some cases might protect the valuer. Importantly, there is also a suggestion that some protection is provided by the different conveyancing practices in the U.K. and N.Z. In the U.K., it is apparently more normal for an agreement for sale and purchase to be entered into after the mortgage finance has been arranged. The suggestion is made that the contract has already been entered into before the valuer carries out his task for the mortgagee.

Volume 1, Issue No. 4 - At page 39, a discussion on guaranteed land transfer searches.

Volume 1, Issue No. 5 - March 1983. At Page 58, the view expressed in Issue No. 3, Page 31, is challenged by J. M. Von Dadelszen in the correspondence columns with a further comment by Dr. Chambers.

The New Zealand Building Economist:

The Building Economist produces publications incorporating current construction costs. Costs are analysed down to a per metre squared or cubed basis for a wide variety of building components, and individual items such as hot water cylinders, taps, and so forth are priced individually for different regions of New Zealand.

Reference Index and Publications:

The School of Architecture, University of Auckland has published lists of Honours dissertations and research topics/subjects over the period 1974-1982. Research papers may not generally be taken out of the Research Library.

The Engineering Technician:

Volume 2, No. 3, August 1982. At Page 51, an article on Valuation investment by Professor P. Motha. He discusses conventional valuation practice, discounted cash flow techniques, Elwood method of equity capitalisation models and concludes that the best judgment must be based on the most tenable and logical calculations, inferring that valuers must use a variety of methods.

Report of the Valuation Department:

Report for the year ended 31st March 1983. Provides a general comment on the real estate market both urban and rural.

Aim. Appraisal Institute Magazine:

Volume 26, Book 1, February 1982 Page 31. An article on portfolio management and real estate by Michael H. Morgan. This article distinguishes between portfolio management and property management. The portfolio manager is the principal and the property manager is the agent.

Assessment Digest: - International Association of Assessing Officers:

Volume 4, No. 5, September/October 1982. J. D. Dorchester, Jnr. delves into the differences in terminology between investment value and market value. He concludes that although the terms are the most important in our vocabulary, they are perhaps the most misunderstood and the most abused.

The Real Estate Appraiser and Analyst:

Volume 48, No. 2. At Page 12, an article by L. L. Wellman and R. C. Howe on investing pension assets in real estate.

At Page 44, Mortgage refinancing and investment decision by R. O. Kirby. Substituting a new loan for an old loan and the effect on the refinancing decision.

At Page 60, "The Internal Rate of Return, Does it . or Doesn't it" by T. C. Slack. In this case, the author attempts to answer the question of whether I.R.R. assumes reinvestment - or spending - of the cash flow.

Volume 48, No. 3. At Page 32, L. A. Kell outlines the care and attention required when selecting a Word Processing System for an appraiser's office.

Volume 49, No. 1. At Page 15, the author Jack C. Harris, under the heading "Applying Elwood in an Era of Persistent Inflation" provides a method for co-ordinating the appreciation assumption with nett income growth. He attempts to answer the question. - How does one stabilise an income stream that is all but assured of changing over time?

Building Research Association of New Zealand:

Research programme of work 1983-1984. The building research association intends to examine a wide range of subjects during the two year period under review. Of interest, are alternative housing performance criteria, solid fuel stoves, weathering of plastic roofing/corrosion of galvanised steel, coatings on concrete blocks, and building controls in New Zealand. Building controls in N.Z. could well be an important publication to valuers in that it proposes to obtain a description of the multitude of Acts and Regulations which have impact on the building process including Bylaws, Building Standards, Modal Bylaws, Statutory Regulations and Departmental Codes of Practice.

CONTRACTS (PRIVITY) ACT 1982

Comment by D. L. Knight, Registered Valuer

The Contracts (Privity) Act 1982, which took effect on 1 April 1983, appears to have received little, if any, discussion by the Institute. I find this somewhat surprising, since it has a direct effect on valuers' liability.

For practical purposes the section of the Act with which valuers must be concerned is Section 4. This Section confers on a person who is not a contracting party the right to sue on a contract which gives him some benefit. The Act has essentially crystallised common law contracts privity following two recent decisions in the House of Lords, and follows its English counterpart.

In connection with valuations made for mortgage purposes, if a mortgagee, say a Bank, instructs a public valuer, then that Valuer's report is for the benefit of the borrower as it is part of the documentation required for the approval of the loan to the borrower by the Bank, and it is possible that the valuer would be liable to the purchaser and borrower, as well as to the Bank in the normal contractual capacity. Valuers instructed directly by the borrower are of course liable under their direct contract with the borrower, although the Bank may have some claim against the valuer if the report has been made negligently and has been prepared on instructions from the borrower for the benefit of the Bank and the Bank has relied on the report when deciding to advance money.

The important point to note is the requirement for reliance and for the person preparing the report to be aware of any third party who could rely on the report, and to make provision within the report therefor. Any clause that a valuer may write in the report as a disclaimer to liability to a third party should be agreed to by the valuer and his client in the above instances, as under the Act both parties must intend, or agree, that the beneficiary does not have an enforceable right. Obviously, not many mortgagees will be prepared to accept a valuer's report prepared for a mortgagor which contains such a disclaimer!

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New Zealand Institute of Valuers

Annual Seminar April 1933 Speakers

MR J. HUSBAND:-

Mr John Husband is a professional artist, author and commentator who has appeared on local radio. He exhibits regularly in galleries throughout New Zealand, Australia, United States and Norfolk Island. His work is now included in collections in Canada, United Kingdom, Holland and Hongkong. In addition, he has worked on book and calendar illustrations.

John Husband's topic was "A Professional's Role in Today's Society". He gave a stimulating address at the Earlybird Breakfast. In his paper, he questioned the words "professional" and the manner in which people act, the protection of registration and the freedom enjoyed by those in the artistic field.

MR E. NEW:-

Mr Ernest New is a member of the N.Z. Planning Institute, a member of the Royal Australian Planning Institute, Fellow of the Guild of Surveyors and an Associate Fellow of the N.Z. Institute of Management.

He was trained in the County Planning office in Sussex and came to New Zealand under a three year contract with the Lands and Survey Department in 1951. In 1954 he joined the Auckland Regional Planning Authority and in 1957 he was appointed planner to the Invercargill City Council. In 1960 he moved into private practice with Williams, Moir, New and Jenkins, Consulting Engineers, Registered Surveyors and Planning Consultants. Since 1970, he has held the position of Housing Manager and construction Manager to the New Zealand Construction Company Limited. He is very knowledgeable on "The Effects of the Tiwai Smelter development on Southland" as his paper outlines.

MR I. DONALD:-

Mr Ian Donald has a Bachelor of Commerce degree, a Diploma in Valuation Farm Management, and is an Associate Chartered Accountant as well as an Associate of the New Zealand Institute of Valuers. He is a Director of Fletcher Challenge Limited and Chief Executive of the Company's rural and trading sector. Ian has been with the Challenge Corporation since 1972, firstly as Finance Controller and later as Assistant General Manager of the Corporation's largest subsidiary, Wrightson NMA Limited.

Ian Donald presented his paper "The Influence and Management of Property in Relation to Company Investments and Takeovers" in a manner which was both informing and stimulating. He referred to the valuation of assets by registered valuers and his company's attitude on the inclusion of these valuation assessments in company accounts.

MR E. S. EDGAR:-

Mr Eion Edgar holds a Bachelor of Commerce degree in Accounting and Marketing, is an Associate Chartered Accountant, an Associate of the Chartered Institute of Secretaries, a Member of the N.Z. Society of Investment Analysts, and a Member of the Property Management Institute. Eion Edgar is a Director of Robert Jones Investments Limited, of Phoenix Assurance Company Limited and of Provident Life Assurance Company Limited as well as of several other public and private companies. He is a partner of Forsyth, Barr & Co., Sharebrokers and Underwriters. His topic at the Seminar was "Factors that Affect Commercial Decisions on Rural Estate". He pointed out twelve factors which :should be taken into account.

Mr P. J. MAHONEY:-

Mr Peter Mahoney completed his Diploma in Urban Valuation in 1965 and was accepted as a Registered Valuer in August 1967. He entered private practice in Auckland in 1969 and established his own practice in 1970. In 1973 that practice merged to form the existing professional practice of Mahoney, Young & Gamby, Registered Valuers, Property Consultants and Property Managers.

Mr Peter Mahoney is a Fellow of the New Zealand Institute of Valuers and a member of the Property Management Institute. He provided an entertaining commentary on the paper given by Mr Eion Edgar.

MR R. W. R. WHITE:-

Mr Raymond White, C.M.G. is a Fellow of the N.Z. Society of Accountants, a Fellow of the Chartered Institute of Secretaries and Administrators and an Honorary Fellow of the Bankers' Institute of New Zealand. He was the Governor of the Reserve Bank of N.Z. from 1977 to 1982 and holds a number of Directorships including the N.Z. South British Group Limited, B.P. New .Zealand Limited, Westpac Banking Corporation (Local Board), and N.Z. Guardian Trust Company Limited.

NZIY ANNOUNCES DETAILS FOR COMPUTER
RETRIEVAL OF SALES DATA

INTRODUCTION:

This paper has been prepared by the Institute's New Technology Committee for the purpose of advising the membership of developments in place or in the concluding stages which will provide a storage and retrieval facility for valuers wishing to maintain sales data on computer or use computers for other purposes.

1.0 BACKGROUND

1.1 A survey made in 1982 disclosed a sufficient level of interest among valuers for the adoption of computers to the orderly recording and retrieval of sales or other data (valuations performed, analyses made etc). The Committee investigated a number of options having regard to the present and future technologies available, to the alternatve (non sales recording) uses that valuers would have for computers, the affordability of technology from a valuer's point of view and how development and operations might be funded.

1.2 When the Council of the Institute received a progress report in April it approved work proceeding on development and made policy decisions to the effect that the system would need to be a user pay service and that charges for the service should be varied according to the number of valuer-subscribers at each operational unit. Given the high capital and operating costs required to commission a system the Institute decided to conduct a further sample survey to gauge the financial viability of the project.

1.3 In mid July some 110 individuals, partnerships or practices were invited to confirm their current interest and sufficient members responded in the affirmative for the Committee to press on with contracts and finalisation of details. Not all members had the opportunity to express their interest since the July invitation was mailed to randomly selected subscribers whose names appeared on the microfiche service mailing list.

2.0 THE SYSTEM IN OUTLINE

2.1 The system se ected is based upon the operation of a microcomputer in the valuer's office and the use of a special software programme known as 'Yalpak'. A microcomputer opens the way for applications not only in the data retrieval area but also in word-processing, electronic worksheets, computational, business accounting and other uses.

With rapidly developing technologies in the communication area microcomputers can be utilized as terminals on local, national or international networks and the Institute will be examining these options once the initial system is fully operational.

2.2 'Valpak' has been developed by the Institute (Trademark and copyright exclusive to NZIV) for the purpose of storing, searching, retrieval, and management of real estate sales data. The programme, written in 'Fortran' language and in the CP/m 2.2 mode for an 8 bit processor, will be sold to users on the basis of the number of valuers served by each installation as follows:

Sole Valuer/user	2	3	4	5 or more
$400	500	600	700	800

Apart from the precautionary copying of the programme for safe-keeping and back up purposes, no user may give or resell the software to any other party. A contract of purchase will spell out the terms of sale.

'Valpak' will enable the user to keep control of the number of sales retained live on his data file, .to archive records into secondary filing on whatever selective basis chosen e.g. sales within certain districts, within specified categories, prior to a chosen date etc. A facility will also exist for the user to insert valuations performed, unverified sales and to add comments or analysis,to each record. Full documentation explaining all the functions of the programme will be included with each sale of Valpak.

2.3 The sales data will comprise that now made available on microfiche but each user will be supplied only with information relating to the region in which he or they are operating. For security reasons and to overcome handling and volume problems, the output from the twice-monthly updates will be broken into eight regional sectors each containing approximately one-eighth of the national real estate activity. The data is then copied onto floppy disks for mailing to subscribers and from these is written into the user's microcomputer file.

Each subscriber will elect to take one or more discs and information relating to the number of sales in each local authority by broad classification (rural, residential, com/indust) will enable the valuer to determine the space needed and/or available to handle the data selected for retention.. Disks will be returned for overwriting. Details of the sales 'regions' are available from the NZIV upon application.

2.4 Because there is only limited standardisation between microcomputer manufacturers some problems will be encountered in getting the sales data into units which do not take ICL formatted 5 inch disks. The Institute will examine the needs of users who require the data in different standards - e.g. 8 inch disks and attempt to arrange disks to service those installations.

Similarly, the Valpak software is designed to operate on only certain types of micros but with modification or conversion may perform on 'unlike' brands. Purchasers will need to be aware of the problems or added cost that could be involved in non-standard equipment.

2.5 The charges to be made for sales in electronic form have been determined at the following rates which reflect the value of the information in the user's hands and its affordability by one or more valuers:

Single valuer	2	3	4	5	6 or more
$400	500	600	700	800	plus $50 per valuer

In recognition of the fact that disk-distributed data is a duplication of information being obtained on microfiche, the Institute proposes to fix a flat fee of $100 for the microfiche where the subscriber upgrades to computer but elects to continue with a microfiche subscription.

The above charges will operate for the 1984 year. As each subscriber commences with Valpak, his data base will be initialised with up to two years of previous sales (i.e. 1982 and 1983 years) and the cost of this data is included in the 'Joining charge' outlined below.

The Institute will store all rural sales and all commercial and industrial sales on its own microcomputer. This will serve as one of the back up systems necessary and provide a base for meeting specific needs of valuers making valuations requiring national data.

2.6 Over the past eighteen months the Institute has incurred costs in investigating, developing, and auditing various options. The systems finally chosen has required further software to be developed to convert tapes to disks etc and all these charges are to be recovered by way of a joining fee. Again, this charge is fixed on a sliding scale to recognise the value of the service to each practice. The charges are a once only fee and are likely to be reviewed each year to ensure that later-joining practices are not unduly subsidised by those who commence in the first year.

Single valuer/user	2	3	4	5	6 or more
$200	400	600	800	900	1,000

3. AVAILABILITY OF EQUIPMENT

3.1 Sufficient respondents to the most recent survey accepted the case for standardisation of equipment to warrant the Institute further investigating the recommendation or purchase of a single brand micro. Although upward of eighty brands are available in New Zealand many of these microcomputers are little more than 'hobby' units and unsuitable for small business purposes and the particualr applications envisaged for valuers.

It should however be pointed out that there is no absolute price-power-performance measure; each name brand claims some feature making it the most suitable unit. In the final analysis the Institute has selected a model which affords the best overall choice having regard to operating mode, software availability, flexibility, growth path, availability, service, repute and price.

3.2 The Institute of Valuers has concluded arrangements to distribute the ICL personal computer - a range of four basic models and is arranging for the delivery, installation and initial technical and training support to be provided by the ICL dealer in each centre.

Orders for equipment should be placed with the Institute and a purchase contract concluded. Each practitioner/practice will need to consider very carefully the question of how much data they intend to hold, the other uses planned for microcomputers, the number of terminals (screen and keyboard) required in each installation and the type of printing outputs required. Some electronic typewriters can 'interface' with microcomputers and thereby act as low speed correspondence printers.

Answers to technical questions can be answered by the Institute or directed to the local dealers. An overall discount on the hardware is possible by purchase through the Institute, the actual amount depending on the type and value of the configuration chosen. Each unit sold includes training material and full user manuals.

3.3 As an indication, the twin floppy disk model (M.15) together with a screen/keyboard and a matrix printer (132 print positions at 120 characters per second) together with cables, 10 disks and delivery could be installed for between $9,200 and $9,500.

A larger unit having 5 megabyte of hard disk memory (M.25) with a 'correspondence' quality printer is likely to be in the range of $14,300 to $14,600.

Additional terminals, attachments for printers, extension disks etc will add to the basic cost when and if these devices are required.

The largest unit supported by two printers and two terminals is likely to be around $19,500. A full price list can be secured from the NZIV office.

3.4 Marac Finance have agreed to give special consideration to applications to finance this equipment and purchasers should check the terms available.

The maximum depreciation allowed by the Inland Revenue is understood to be 20% per annum diminishing value on hardware whilst software may be written off at 100% in the year of purchase.

Leasing of hardware is on the same basis as other business assets in which the maximum lease payment permitted as a charge against the revenue is the normal depreciation rate of the asset.

Maintenance contracts on the equipment are available from the suppliers, ICL (New Zealand), and the rates vary depending on the capital cost of the equipment and the response time elapsed from failure e.g. immediate response, within 24 hours or within 48 hours. Full details of the conditions, cover and rates are available on application.

The Institute has arranged a 'master policy' to cover any ICL microcomputer purchase with premiums of $144, $180 or $216 per annum (depending on ultimate value of equipment). Comprehensive theft, damage and 'loss of use' cover is afforded. Details of this scheme are available with the Institute.

4.0 COMMISSIONING SYSTEM

4.1 Some work remains to complete the various software and this will be followed by a test period to ensure any operational faults are eliminated. It is expected that the new sales service could be available to users by mid to late October.

When members have decided to purchase the equipment and software, a call to the Institute's office will advise an enquirer where the nearest unit is operational. Further demonstrations will be arranged over the next couple of months in some branches.

4.2 Some members will already own, operate or have access to microcomputers or other equipment. Further, a number of valuers with data handling packages may not require 'Valpak' and be in a position to commence with purchase of the data at an early date. Negotiations with these subscribers for the format of data medium can now proceed.

4.3 Before the user commences with the sales on computer service, a fresh contract will need to be concluded with the Institute. This will be along similar lines to that covering the microfiche supply agreement.

4.4 One of the principal objectives in this project has been to leave the decision up to the individual as far as possible in respect to selection of hardware. However, the New Technology Committee stresses that considerable initial and longer term advantages are likely to be gained by opting for the ICL equipment. In all the decisions taken and advice rendered the objective has been to find the best solution for the Institute's position and inevitably this will not meet the particular demands of some individuals or practices. It should be realised, however, that the service should grow very rapidly to the point where users, having standardised on one model, will outnumber all other brands combined.

4.5 The Committee is confident that the recommendations and conclusions now reached are the best insofar as they meet the criteria set forward.

It is not possible in a paper of this length to convey all the technical data, procedures of the service or 'Valpak' functions. The Committee, comprising Mr A.G. (Arthur) Stewart of Wellington, Mr R.V. (Bob) Hargreaves at Massey University, Mr T.I. (Tom) Marks at Lincoln College and Kevin Allan of the NZIV office are available to answer your further enquiries or direct them to the appropriate centre for reply.

MR R. FRIZZELL:-

Mr Ralph Frizzell qualified with a Diploma in Valuation Farm Management at Lincoln College and was employed for 20 years in the Government Valuation Department. Between 1968 and 1980, he was a Senior Lecturer at Lincoln College, and now sits on the Land Valuation Tribunal. He moved to Te Puke in 1980 where he has a kiwifruit orchard. He is well qualified to speak on the topic "The Influence of Taxation on Property Investment", and his paper took an analytical approach to recent taxation amendments.

MR A. P. LAING:-

Mr Alex Laing completed his Diploma of Valuation and Farm Management at Lincoln College in 1961. He joined the Lands and Survey Department and in 1965 he set up his own practice in Dunedin. Continuing his studies at the University of Otago, he was awarded a Bachelor of Commerce in 1969.

He is the principal of Lainco Rural Limited, Public Valuers of Dunedin.

Alex Laing successfully integrates a farm accountancy practice with his normal valuing role and over the years he has acted as valuer, accountant and consultant to many of Otago's leading institutions and farmers.

He provided a written commentary on the paper "The Influence and Management of Property in Relation to Company Investment and Takeovers".

MR K. M. ALLAN:

Kevin Allan is an Associate of the New Zealand Institute of Valuers and is the recently appointed Executive Officer of that Head Office in Wellington. Kevin Allan joined the Institute staff after nearly 17 years with the Government Valuation Department.

He outlined a continuing investigation being undertaken by the new Technology Committee. This has required a reassessment of the type of equipment that the Institute should recommend be purchased by valuation practices. More recent information is now available on this subject.

MR G. J. HORSLEY:-

Mr Graeme Horsley is an Associate of the N.Z. Institute of Valuers, a Wellington Branch Councillor and current Vice-President of the N.Z. Institute of Valuers. He is a senior partner in the firm Darroch Simpson & Co., Registered Valuers and is a Director of several private companies, with hotel and retailing interests.

MR P. A. BUTSON:-

Mr Butson has owned and operated an Insurance Brokerage firm for the past seven years. He runs his own property company, and is a partner in three other property partnerships. Mr Butson concentrates on the redevelopment of existing buildings and has retained the greater proportion of these developments.

MR P. D. ADAM:-

Mr Peter Adam has a Bachelor of Commerce degree, is an Associate Chartered Accountant and a partner in the firm of Hutchison, Hull & Company, Invercargill.

MR M. S. COOK:-

Mr Mervyn Cook has a Bachelor of Commerce degree, is an Associate Chartered Accountant, a Cost and Management Accountant, and a partner in the firm of Hutchison, Hull & Company, Invercargill.

Mr J. NEWSON:-

Mr John Newson completed a Diploma in Valuation and Management at Lincoln in 1966. He commenced private consulting and valuing in Southland in 1970 and was registered as a Valuer in 1973. He is a past Chairman and Councillor of the Southland Branch of the N.Z.S.F.M.

MR M. P. FENTON:-

Mr Mike Fenton is an Associate Chartered Accountant and a partner in Gilfillan, Morris & Company, Invercargill.

Messrs Adam, Cook & Fenton covered their topic "Profits and Pitfalls in the Modem Practice" in a highly entertaining manner by setting up an imaginary interview between a valuer, an Inland Revenue inspector and the valuer's accountant.

MR C. McCULLOCH:-

Mr McCulloch is an Associate Chartered Accountant and a partner in the firm of Broad, Christie and Partners. His major commercial interests through the firm are in the areas of fishing and primary production including the lime industry and the wheat-drying industry, although in the course of his work he covers many other aspects of industry in Southland. Mr McCulloch provided the commentary on Mr Frizzell's presentation of "The Influence of Taxation on Property Investment."

MR J. GRIEVE:-

Mr Grieve has been a practising Lawyer since 1948. He is the South Island Director for the Law Practitioners' Co-operative Society Limited, an organisation which lends superannuation funds etc., for lawyers throughout New Zealand. Mr Grieve is a Past-President of the Southland District Law Society. He is also involved in the commercial field as a director of H. & J. Smith Limited.

Whence the Glasgow Lease?

by W. K. S. Christiansen F.R.I.C.S., Dip T.P. M.P.M.I. M.N.Z.P.I. A.R.E.I.N.Z.

Ken Christiansen has been a regular contributor to the "Valuer". He is a chartered surveyor and has been involved in the property valuation, agency, investment, development, planning, consultancy and management areas for some 36 years in New Zealand and overseas. Mr Christiansen is the Senior Lecturer in Land Economy at Auckland University.

How did the "Glasgow" lease come by its name? When? What are its origins? The answers appear to be wrapped in mystery. There does not even appear to be a definition which fully describes this form of land tenure. Is the whole thing a myth?

There is a general recognition of what constitutes a "Glasgow" lease. But there is a paucity of authoritative literature to confirm that general understanding. An exhaustive search of local and overseas textbooks and works of reference on land tenure, legal terminology, economic history, property investment, land law and the like reveals a total absence of any reference to such a thing as a "Glasgow" lease.

The only textbook to contain a brief description is "Principles and Practice of Urban Valuation" published by the N.Z. Institute of Valuers in 1959. This says that a "Glasgow" lease is a ground lease granted for perpetually renewable 21 year terms; the rent being reviewable at renewal; and with provision for compensation for improvements should the lessee surrender the lease instead of renewing it.'

The earliest reference found is in an article by R. McGowan in the "N.Z. Valuers' Bulletin" of June 1944.2 This publication was the precursor of the "NZ Valuer". McGowan states: "Perhaps the most common type of lease is the simple twenty-one year renewable lease, or "Glasgow" lease. These generally provide the right-of-renewal, at a rent based on a new valuation at the end of each period of 21 years, and also compensation for improvements. They are ground leases only, in which all the improvements belong to the Lessee."

Contributors to "N.Z. Valuer" have confirmed the general nature of the "Glasgow" lease. In the June 1958 issue, the Editor refers to perpetually renewable leases as being "Glasgow" types of lease of the ground only and not the buildings.' In the June 1969 issue S. N. Dean states that "Glasgow" leases are a type of ground lease in perpetuity which have provision for rental review at set intervals 4

In the September 1971 issue J. P. Coyle describes the "Glasgow" lease as one "known in New Zealand" as a lease for 21 years perpetually renewable.' In the same issue of "N.Z. Valuer" J. N. B. Wall goes a little further and adds that it should not be confused with the "Lease in Perpetuity" which is for a set term of 999 years, at a fixed annual rental which remains unaltered for the entire term.

Wall goes on: "one type of ground lease - the perpetually renewable lease commonly known in New Zealand as the "Glasgow Lease". That is a lease which continues in perpetuity with rental reviews at defined periods which can vary dependent upon the exact terms of the lease document, but usually at either 5, 7, 102, 14, 21 or 22 years rests".6

A handbook "Leases and Lands" issued by an Auckland group of Anglican trust bodies in April 1978 contains the brief statement: Perpenally renewable, 21-year ground leases are sometimes known as "Glasgow" leases" .7 R. J. Reichert's recent "Guide to Real Estate Terminology"' contains this entry for Glasgow leases: "Term commonly used for perpetually renewable leases. Usually the lease is for land alone so that the lessee erects and owns the improvements. The lease is for a fixed period (often 21 years). At the end of each period the lessee has the right to renew at the current (reassessed) rent. (N.Z.)"9

From these quoted sources one can pick up the general picture of the "Glasgow" lease but it seems obvious that it is more in the nature of a generic expression than a standard document containing standard terms (apart from the rent of course) in every case. The references quoted indicate a general familiarity among valuers with what a "Glasgow" lease is understood to be. It also seems obvious that it is generally recognised the name "Glasgow" is of New Zealand provenance and most probably used exclusively in New Zealand.

What the Glasgow lease is, in fact and in common parlance, is a perpetually renewable ground lease. It is regrettable that there should also exist the "Lease in Perpetuity" which does have legislative respectablity deriving from the Land Act 1892.10 Since it is a lease for 999 years it is clearly not in perpetuity: it does not last for ever, it lasts for 999 years. Whatever the practical implications at this moment, some 900 years from expiry date, there still is an expiry date.

It is the Glasgow lease which is the more likely to be perpetual: if it is renewed every 21 years, or whenever, then it will go on forever. One wonders at the lack of precision which led to a 999 year lease being dubbed "in perpetuity". It may well be argued that those who deal in ground leases are familiar with the expressions used. This does not excuse the absence of a precise, detailed and authoritative description or definition beyond the snippets which are all we appear to have at present. Volume II of "Urban Valuation in New Zealand" would be the ideal place to rectify this omission."

Now we come to the origin of the name which has been applied to this type of lease. This has intrigued the writer ever since arrival in New Zealand nearly 25 years ago. Until then I had never heard of a "Glasgow" lease or met with this kind of ground leasehold tenure, despite a degree of previous familiarity with real estate in Glasgow itself and nearby parts of Scotland.

It is probably worth mentioning one factor which is probably not known to most New Zealanders (or to most English for that matter!): the legal system and land tenures are very different as between Scotland and England. Having received an English-based professional education it can be a memorable experience to be faced with Scottish-based property transactions almost without warning.

The so-called "Glasgow" lease also differs from any of the usual English forms of ground lease. English ground leases met with 25 years ago were generally for a fixed term which sometimes bore a relationship to the life expectancy of the buildings likely to be erected, at a ground rent fixed for the whole term, and with the improvements reverting to the freeholder in good condition on expiry.

Accordingly the "Glasgow" form of lease appears to be a stranger to both Scotland and England. In an endeavour to discover whether a relationship between Glaswegian and New Zealand leasing techniques could be established, and having failed to find any literature here on the subject, the writer has referred to authorities in Scotland itself.

For the purpose of this enquiry the writer described the "Glasgow lease" as consisting of a lease granted for 21 years, but renewable in perpetuity. Rent reviews are either every 21 years or every 7 years and agreed or arbitrated between the parties. The practice has evolved whereby this is usually a percentage of the freehold site value but nothing in the lease dictates this formula.[12]

On having the "Glasgow" lease described to him, the Head of Department of Land Economy at the University of Aberdeen (Professor A. L. MacLeary) replied: "I have never before heard of this device".[13] The enquiry was passed on to a Professor Millington at the Paisley College of Technology (near Glasgow).

He commented: "My lawyers have no knowledge of a Glasgow Lease. They have been in the Glasgow area for many years, and have been involved in practice in Glasgow, and I would have expected them to know if there was such a lease. They have also contacted acquaintances of theirs in the profession in Glasgow and none of their legal contacts have come across such a lease under this name or otherwise."[14]

In one last effort, enquiry was made of the Solicitor to the Strathclyde Regional Council (in Glasgow). A Mr C. J. Langley went to great lengths to get to the bottom of the problem. In particular he examined abstracts of typical deeds granted both by the Corporation of Glasgow and by Hutcheson's Hospital (a major landowner in this part of the world) in the 18th and 19th centuries, These failed to reveal anything resembling the "Glasgow" lease; "the position is much the same when one examines the published protocol books of Glasgow Notaries over the preceding two centuries"."

A rather tenuous speculation has been offered from both ends of the research, G. E. Burns of Dunedin has suggested that a feature of ground leasing in Glasgow during the 18th and 19th century was the offering of the rent review to public auction.[16] Langley, in Glasgow, has uncovered "some authority for the proposition that the heritable property of a burgh could only be let for a period of three years and then only offer public auction"." This might establish that ground leases in Scottish burghs might at one time have gone to the highest bidder. While interesting, it does not appear to provide any special link between Glasgow in Scotland and the "Glasgow" lease in New Zealand.

This still leaves open the period when the name will have originated. There were several New Zealand Ministers of the Crown involved with land policies in the late 1800's and early 1900's who were of Scottish origin or descent but without readily discernible links with Glasgow. There is an obscure reference in a 1981 ground rent arbitration award to "Glasgow Corporation v Muir and Others 1943"." But this had to do with some children scalded by hot water spilled from a tea urn in a refreshment kios in a Glasgow park in 1940. Hardly sufficient cause to associate Glasgow with a New Zealand form of ground lease!

On the face of it the weight of available evidence would seem to indicate that the Glasgow connection is something of a figment of New Zealand imaginations. Or is it? We seem to have invented an original form of lease tenure; why was it felt, and by whom, that the "Glasgow" name should be attached to it? There must have been some sort of reason. This has not yet surfaced. Can anybody shed any light?

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1 pages 214-215
2 page 18
3 page 13
4 pages 449-450
5 pages 338-339
6 page 347
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10 Crown Pastoral Leases and Leases in Perpetuity, Report of the Committee of Inquiry, Wellington, May 1982, page 54.
11 in course of preparation by the NZIV
12 letters dated 14 October 1981 and 7 February 1983
13 letter dated 22 October 1981
14 letter dated 11 January 1982
15 letter dated 4 May 1983
16 letter dated 12 May 1982
17 Auckland Harbour Board Rental Arbitration, N.Z. Valuer, December 1982, page 225.

Profitsand Pitfalls in a Modern Practice

by P. D. Adam, M. S. Cook and M. P. Fenton

Introduction

The following is a very brief interview with a taxpayer (V), with assistance from his Accountant (A). The Inspector (I) has already looked at the records. The client has a valuation practice dealing in both the urban and rural areas. He employs one qualified valuer and two office staff.

The dialogue is constructed to make a few points on some matters and not necessarily carry the discussion to a conclusion. This is done deliberately because Inspectors do this. When you think the matter is at an end the tax payer or his Accountant is caught unawares by some pointed question.

1. Mr Fenton I see that Mrs Fenton has been paid $50 per week. I have checked our files and can't find any application for you to pay wages to your wife.

V. I didn't know that I had to do that.

1. But Mr Cook would know that it was necessary before you could claim it as a deduction.

A. But I didn't know that Mrs Fenton was on the payroll.

1. There hasn't been any tax deducted from Mrs Fenton's wages.

V. I didn't think I had to deduct anything on such a small amount.

1. But if she is to be paid wages she would have to pay tax.

V. I looked upon it as a share of the profits.

1. Do you have a partnership agreement?

V. No. It is really wages I suppose.

1. Yes. It was included in the wages cheques. What does she do?

V. She occasionally answers the phone and runs a few messages for me and also sometimes cleans the offices.

I. From the summary of wages each week, I see that there is an extra $40 which doesn't seem to belong to anything.

V. $20 of that is for my expenses, and $20 is for my employee.

1. What do you give it to your employee for? He won't have any expenses over and above those that you reimburse him for.

V. Not much, but he said he would leave if I didn't give him some perks.

1. What other perks does he get?

V. I pay his golf sub and pay all his petrol.

I. Does he represent you when he is playing golf?

V. He is a good man with clients of the practice.

I. I see another employee, your office manager I think, has had tax deducted at a flat rate of 15%.

V. Yes. He asked me to.

1. Didn't you get him to apply for a special tax code from the Department?

V. No. I didn't know I had to.

1. The instruction on this matter is printed on the I.R. 12 forms.

V. Is it?

1. He didn't file a return, but if he had, he would have had $675 to pay.

V. Gee.

1. I am afraid you will be assessed for the amount short paid.

V. Can't I get it back from him?

1. You can try.

Referring back to perks, I noticed that you pay a lot of accommodation accounts for your staff at Queenstown.

V. Yes, I send them off when they put in a good effort as a reward and incentive.

1. There are some large cash items about the same time called "staff welfare".

V. That is to see that they are right for any cash expenses when away.

1. Such as?

V. Meals, shouts etc.

1. What about travelling expenses?

V. They fill their cars with petrol on my account before they go and the cash is supposed to cover the balance.

1. Also a lot of purchases of clothing from H. J. Smiths Ltd.

V. They are not for me, they are for my staff.

1. Suits and dresses for your staff.

V. Yes, they have to look neat when they are out. It does my practice a lot of good to have well presented employees.

1. The cost of clothing, other than protective clothing, for staff is not deductible.

V. Mr Cook said they were.

A. I referred to Harris's case: only the second hand value has to be taken in.

1. Perhaps we could get together to assess a second hand value. Should we say $150 for each suit and $100 for each dress?

An auction of type ensues.

I see that you have paid a large account at the Licensing Trust in December. What was this for?

V. That was for the Christmas Party.

I. But you can't deduct the cost of a party for staff.

V. I thought that I could. In any case there were a few clients there.

1. The cost of the clients can be claimed as a cost if you were entertaining them for business purposes, but not the staff.

V. Mr Cook said that I could. He was there.

A. I said that you could pay a subsidy on the staff's social fund as staff welfare.

V. It's the same thing isn't it?

A. No.

1. I see an entry in the 1982 accounts reducing work in progress by $10,000. What was this for?

A. It was a bad figure on the advice sheet from Mr Fenton. I read $33,000 instead of $23,000.

1. What made you decide that the figure was overstated?

A. The profit looked too high and Mr Fenton spotted it when we were discussing the accounts.

1. Didn't you compare the figure with the lists of work in progress?

A. I never ever see them.

1. Could I have a look at your list please Mr Fenton.

V. Certainly, I will post it to you.

1. I also noticed that your debtors figure for 1982 was considerably less than in the previous years. Can you explain why?

V. I was a bit behind in my billing of fees at March 1982, and still had two or three months fees to bill at that time. That is one of the reasons why work in progress is higher.

1. Could I have also a look at your debtors' records please.

V. I will send those to you with the lists of work in progress.

1. You purchased a Jaguar car last year.

V. Yes, I bought it cheap.

1. It seemed very cheap to me.

V. Yes, Quality Cars Ltd. couldn't pay the fees they owed to me, so I took the Jag in settlement of the account, plus $13,000.

1. How much was the account?

V. About $3,000.

1. So it really cost you $16,000.

V. Yes.

1. But it is only in the books at $13,000.

V. But that is all I paid.
(The Accountant starts to show signs of alarm).

1. No allowance has been made for personal use of the Jaguar.

V. I use it only for business purposes.

I. You take it home overnight and at lunch time. This is personal use, you know.

V. I take it home to put in the garage as I don't have a garage at the office, and I don't go home for lunch.

1. Nevertheless, its a private use and an allowance will have to be made for this and other private use. We will look at it later.
I don't see any allowance for personal use of the telephone.

A. His home phone is paid by him privately.

I. I see you pay subs to the Squash Club, Golf Club, The Southern Club, and the Coldstream Club.

V. I need these clubs for my business connections.

1. But you can claim only *50%* of one Club. I am prepared to allow 50% of the largest sub. There were some large payments to George Smith & Co., builders. The total was about $10,200.

V. Yes we had to do some repairs when we installed the new word-processor.

A. We capitalised $6,000 and wrote off $4,200.

1. What did all the builders do?

V. We had to take out some of the old partitions and put in new ones, together with air-conditioning, to fit in the word-processor.

1. Are the partitions of the same standard and materials as before?

V. Yes.

1. They seem awfully expensive partitions, just to fit a word-processor in.

V. The other alternative was to rent more office space, and that could have cost more.

1. In general expenses, is a cheque to Kodak for $1,200 paid in March. What was this for?

V. That was for a large order for film that I purchased at a special price, for taking photos of properties which are valued.

1. There is no stock of film shown as being on hand at March 31. Was it all used by then?

A. They are consumables, and do not need to be brought into account at balance date.

1. Any increase in stocks of consumables over and above the normal stocks held, should be brought back in. We will have to make an adjustment for that. General expenses have payments to the Southern Club on a regular basis.

V. I entertain a lot.

1. Who?

V. Clients and prospective clients.

I. Can you give me a note of who they are?

V. Only some.

1. I will have to disallow any cost that you can't substantiate.

V. I'll make a list.

1. At balance date there is a journal entry for $1,500 to general expenses crediting your current account.

A. That is entertainment that Mr Fenton does.

1. Can he substantiate any of it?

A. Like he said, he'll make a list.

1. My audit was hampered by the lack of cheque butts while all receipts were not on the file. Have you found them yet?

V. I didn't know I had to keep them.

A. I asked you to keep them for seven years.

V. I thought that was just the wage records.

I. You now have to keep all records for at least ten years.

I see that the interest on your personal bank overdraft has been charged to your business account.

V. Yes. If all my clients paid me by due date, I would be able to draw out more of the profit and wouldn't need to have an overdraft in my personal account.

1. But your personal account is used only for non-business expenses. You cannot claim interest on a personal account.

A. We will have to look at altering those arrangements with the bank.

1. For each of the last four years you have claimed travelling expenses to Australia. For what reason do you go to Australia.

V. I like to keep up to date with all trends in valuing practices and go over to visit as many Australian Practices as I can.

1. Does your wife accompany you on those trips?

V. Yes. She acts as my Secretary while we're there.

1. Could you supply me with details of these trips, - details of your itinerary, offices visited, and your total costs?

V. I will see what I can find.

1. Outside of your valuation practice, I see you also own another house which is rented. Since you purchased this house three years ago, you have shown a loss on the rental of this house. It doesn't appear to have been a very good investment. Can you tell me why you purchased the property when it hasn't been a profitable venture.

V. At the time I purchased the property I thought it was a good buy, and the way rentals were increasing, I thought it might eventually be profitable. The interest rate on mortgage has increased substantially however, and with the present rent freeze, I haven't been able to increase the rent to make it profitable.

I. Were not projections done at the time of purchase, to see if it would become profitable?

V. No. As I said, at the time it was purchased, I thought it was a good buy, and might perhaps be a good retirement fund for me.

1. We will have to look closely at your rental property investment and see if we will allow you to claim the loss. I will write you a separate letter on this matter.
Here is a statement that I would like you to complete, of your assets and liabilities now and five years ago. Mr Cook might like to help you with this, and would you also ask Mrs Fenton to complete one. I'll pick them up at the next interview.

Interview at Office

1. Hello Mr Fenton. I just called to see if you had those various details which I asked you to obtain for me.

F. Yes. I have them in my office.

1. Is that your new area for the word-processor?

F. Yes. It has made a big difference to the look of the offices, and the new word-processor is a big improvement on the old typewriter.

I. Is that the old typewriter there?

F. Yes.

1. Is that the one that you wrote off?

F. Yes. It was written down so far, that we thought we would write it off.

1. But you still use it. I see there is some work in it at the moment.

F. Oh, only the occasional letter is typed, when the word-processor is in use for other work.

I. What happened to the old partitions?

F. We couldn't find a buyer for them, so I took them to the dump.

Final Interview in Accountant's Office

1. Mr Fenton, the expenses in Australia seem to be concentrated around Surfers Paradise and Kings Cross.

V. I visit several offices in Brisbane and Sydney.

1. How much time on these trips would you spend on holiday?

V. Not much. I am flat out all the time.

I. But Mrs Fenton says you spend most of your time at Surfers Paradise.

V. Who says that? My wife? When did you see her?

1. Oh, I had to have her authority to uplift records of her bank account, so I went up and got her signature. You are a lucky man. She is a very pleasant woman. We had quite a chat over a cup of tea.
(Mr Fenton and Mr Cook look at each other in surprise.) That was a very good address that Mrs Fenton gave to the Woman's Club on her travels with you; it got a good write up in the paper.

V. We don't always go together you know.

1. After we have looked at your details, we shall assess the extent of your business costs. The balance will be added back to your income. Have you got a list of assets and liabilities for me?
(List handed over.)
Thank you.
I don't see a boat on the list.

V. Oh. I forgot about that. How did you know anyway?

I. I saw it at your home.
Your figure for furniture seems very conservative.

V. That's what it is insured for.

I. Looking at this, we may have to call in outside valuers.

V. To blazes with that. Who pays for that?

1. You do.
The typewriter you wrote off and is still in your office will have to be reinstated in the books.

V. Well its only worth $10. I can't see why we should put it back at $200.

I. Have you a summary of the entertainment costs.

(List handed over.)

This totals $976. The expenses claimed were $20 per week. i.e. $1,040 per annum. The journal entry was $1,500 plus the Southern Club accounts $672. The net total is $2,236 to be added back to your income.
Mr Cook, the list of work in progress totals $33,000 not $23,000 as altered in the accounts.

A. Were they? Mr Fenton said that they were $23,000.

1. The petrol and other staff allowances are considered to be a benefit to the staff, as I said, and will have to be valued and assessed to them.

V. You can't do that. They would all leave me.

1. If I disallow the expenses they are a cost to you personally and if there are other gifts exceeding $15,000 in a year they are subject to gift duty, too.

V. That is too much.

1. Have you an assessment of the private use of the Jag.?

V. No.

1. Let us say 50 per cent.

(An auction ensues.)

The new partitions are really all capital improvements. If you considered that maintenance was involved you could have got a certificate from an architect or your builder.

V. I didn't think of it. Our assessment is pretty correct.

1. From our other work we noted that you did a valuation for Jim Smith at Bluff during the previous year.

V. Yes that was for a loan for a new crayfish boat for him.

1. You don't appear to have ever sent him a bill for that job.

V. No. Actually he gave me a couple of bags of crayfish tails so I didn't think I should charge him.

1. That will also have to be valued and added to your income.

Your debtors list also adds to a figure approximately $3,000 higher than the figure shown in your accounts.

V. Yes. I considered that I was unlikely to be paid for quite a few, and so didn't include them.

1. You have to actually write them off as bad debts in your ledger before you can claim them as such.

Well, it appears we have several adjustments to be made to your returns for the last couple of years. We will prepare these and send them to you in due course. Thank you Mr Cook and Mr Fenton for your most helpful manner in this job. It makes our job a lot easier.

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Selected Questions and Answers:

"Profits and Pitfalls in a Modern Practice"

Q.
What right has the individual tax payer got as to the time that the inspector arrives. Can you say they begin at a certain time, or call at home unannounced. Does the wife have to let him inside?

A.
Not normally. I think that the tax payer can control the time certainly. Normally what would happen is the Accountant in most cases asks the Department in writing right at the start of investigation to be present at all interviews and if that is requested, the Tax Department must follow that request. They go to all sorts of lengths to get to visit the home.

A.
Quite often something alerts them (a set of Accounts or Tax Return) that something is wrong but which could be quite legitimately wrong. Having been alerted they proceed to investigate. Being in the *place 5* minutes, to find the answer to problem is quite legitimate but because they have been assigned they carry on and incur the cost to the client and the Accountant of the investigation. Even though they have got their answer straight away they have been assigned to that firm to investigate. If you have got something unusual happening in your practice, your accountant would be well advised to write a letter and explain the unusual circumstances which caused this result and this would save you time and trouble. If after completion of the investigation the tax payer has "defrauded the revenue" the cost of the accountant's fees during investigation are not deductible.

Q. Whiteside
How far can they go with checking where cheques end up?

As far as they like, e.g. some years ago a considerable time was spent going through a person's business and they found nothing whatsoever they could pin him down on. In the end the only item was for personal tolls. They went back through telephone bills and for a particular year got a list of toll charges and found out who particular numbers were for and found that certain calls were for a sister in Dipton. Nothing to do with business.

Q. - Whiteside
If a fellow says that he wrote a cheque out for a certain Company, do they check back through records and say okay that cheque was presented by that particular Company?

A.
Yes they can get pay cheques. It is normal practice for Accountants doing investigations to get pay cheques from bank.

Q. - Mackintosh
What advice would you give to us or anyone that gets a knock on the door from the tax inspector, what to do for a start off?

A.
Consult your Accountant straight away. Get him alongside you at all interviews, do not handle on your own. The first approach would be to the Accountant. Normal procedure is that they send a letter to the tax payer asking for various records (cheque butts, savings, etc.) and send a copy to the Accountant. One thing to watch for is the person who is the very friendly one. They say they're just checking on one or two small things and assure you it will be cleared up in a week. As the interview goes on the line gets harder and harder until you get what we call the final one - that's when they put the acid on. When they say we are going to do this and we are going to do that; That's when you have got to start fighting hard. They have all the evidence and the Accountant has very little. They are not always right. Quite often the case does not support the points they are making. In some cases you need someone with some real tax expertise to fight. People do occasionally win.

The Influence and Management of Property in Relation to Company Investment and Takeovers

by I. Donald, B.Com., A.C.A., A.N.Z.I.V., Dip. V.F.M.

Firstly let me say what a pleasure it is for me to address you today. Although, I have not been active in Institute's affairs, I have pleasant memories of the early days of my career as a farm valuer wandering around farms in various parts of New Zealand applying the academic knowledge I had gained at Lincoln College. This led me to a limited stint on house valuations in Wellington and to commercial valuations both in New Zealand and Australia.

Good days, when the profession was fairly straightforward and far less technical than it has of necessity become today - something I will elaborate on a little further in my paper.

I should also say at the outset that the thoughts I am expressing today are essentially my own and not necessarily those of Fletcher Challenge.

The influence and management of property in relation to company investment and takeovers has obviously been something of a moving feast. Even today, philosophies and attitudes towards property as an investment differ markedly amongst businessmen but nevertheless I think it is possible to generalise and try and look at the changing philosophy I believe that has been developing over the past 10 or 15 years. This process will highlight some of the causes of change and the effects of this change on the valuing profession.

If I could start by talking of the traditional or past philosophy.

This, I think, is well known to all of you, namely, the attitude by business people and hence by companies whom they represent that property was one of the soundest investments one could make. It offered:

- a secure and safe investment - a store of value
- good growth and probably better growth than anything else long term
- a reserve for borrowing and therefore liquidity, or alternatively, ready sale and therefore even greater cash than borrowing provided
- security of tenure for the operations of the business which gave the owner/occupier:
  - (a) a preferred location
  - (b) the opportunity to alter the building as and when he wanted
  - (c) the security of knowing that his rent wouldn't go up against him and
  - (d) therefore that his trading profit was secure.

This in turn led to the feeling that their overall position was secure in that if profits were secured, always of course presuming they were adequate, they would be largely safe from takeover (or at least so they thought).

This philosophy was mirrored in the accounting treatment that prevailed in those days.

In the 1960's before double-digit inflation, there were no revaluations - and indeed I think I am right in saying that there are still parts of the world that this practice is frowned upon, notably North America.

As a consequence land and buildings were often under-valued, the market value of total tangible assets understated, and shareholders' funds (as a consequence) looked better and most importantly as a result of all this, the Chairman was satisfied.

His company performance looked respectable. There were some hidden reserves for a rainy day.

It was a quiet and easier life.

But things have changed.

We now have a double-digit inflation and we have had it for a decade. Returns to the business sector of our economy have been quite inadequate and very few businesses in New Zealand, particularly trading companies, have been producing adequate profits to cover the inflation on their working capital in stocks and debtors. In other words there has not been a genuine free cash flow from the business and they have had to increase their borrowing each year to restock the shelves and to keep their debtors financed.

Shareholders' funds have declined as a percentage of total tangible assets. These balance sheet ratios are important to the credit standing of the Company. Certain ratios are regarded by the market, i.e. Bankers, Debenture holders, Shareholders, as being prudent for the Company. For example, for a trading company, a proprietorship ratio of 45% of TTA is considered the norm, and a current ratio of 1.25:1.

To maintain balance sheet ratios therefore, they have had no option but to revalue those assets that can stand it, to market value. Current assets are of course always valued at close to market value under the accounting convention of valuing stocks at the lower of cost or market value and debtors at current realisable value less any bad or doubtful debts. As a generalisation, it is only the longer term investments that have been taken up in the books at historic cost that can be revalued and fortunately for business, with inflation, most property has increased in value. Revaluations are credited to shareholders' funds as capital reserves so bolstering the proprietorship ratio. If current liabilities are excessive this can be rectified by additional long-term borrowing to improve liquidity - and all of this I am sure is understood clearly by you.

The important point is that this scope for revaluation in the absence of adequate earnings has been the saving grace of New Zealand business in keeping their proprietorship ratio as a percentage of their total assets respectable. This is true, provided:

(a) The proportion of property to total tangible assets in the balance sheet of the company is at a sufficient level and of a sufficient quality to allow the revaluation to cover the shortfall in profits needed to replace working capital requirements. The extent of property required obviously varies depending on the nature of the company, the percentage of its assets involved in working capital, the quality of the property, its usage and its ability to be revalued.

r(b) The demand for property generally remains strong and therefore market price has kept up with replacement cost less depreciation. Again this presupposes that:

I The inflation psychology of the overall economy continues, i.e. that buying today will be cheaper than tomorrow, and therefore the consumer spending is maintained and:

IT As a consequence, business profitability continues.

III And therefore, and most importantly, that the return on shareholders' funds plus the revaluation of those shareholders' funds is still acceptable and hasn't fallen. In other words, profits have also grown in keeping with inflation and therefore the share price of the company has been maintained versus the net tangible asset backing per share - the market capitalisation of the company has retained its relativity versus the net worth of the company. You will all appreciate that when the disparity between the two gets too great, i.e. the company can be purchased for much less than it's worth, that it becomes a prime takeover target.

So far in New Zealand this has been the case. Revaluations are therefore prevalent and are obviously good for the valuing profession.

Despite this there are growing pressures developing that clearly indicate that even under the above scenario, all is not necessarily well in the business community.

(A) Firstly many companies have run out of headroom under their traditional Trust Deeds. A Trust Deed, as you will understand, is the document under which the total borrowings of the company are limited. Traditional Trust Deeds have placed a limit on the ratio of:

(a) the extent of total borrowings to shareholders' funds

(b) current assets to current liabilities, and

(c) the interest on total borrowings to profits.

It is this latter restriction which has proved the most troublesome under this modern philosophy of revaluing assets in balance sheets to keep the proprietorship and current asset ratios in order. This is because profits in relation to borrowings have reduced (or more specifically, cost of borrowings, which is obviously a function of the level of borrowings and the interest rates which are payable). Interest rate increases have been particularly telling over the past decade having risen from 82% in 1972, being the then prime debenture rate, to 22% in 1982, being the offshore covered rate of funds to prime borrowers in New Zealand. Many leading New Zealand companies were forced to borrow at this cost because the availability of domestic money due to the pressures on the limited domestic market by inflation-proof bonds etc., was insufficient. Even if they were lucky enough to borrow adequate funds on the domestic market, they would have been paying all of 18.5%.

Profitability therefore, has come under pressure and the old or traditional requirement of Trust Deeds to have interest payments covered at least three times by pre-tax pre-interest earnings has proved too demanding.

The response of business has therefore been, predictably, to:

(a) Change Trust Deeds. Interest cover restrictions have been watered down and we have seen the development of the negative pledge deed.

(b) We have seen the development of what is euphemistically known as creative accounting. In order to keep profits up we have seen revaluations of assets being taken through the income statement. It is to many traditional accountants and to the more conservative in the community, a trifle advanced, but it can be argued it is the fairest way of demonstrating to current shareholders and therefore the market at large, the present value of their company. A good example of this is land intensive companies, for example, farming, which under traditional accounting has shown a quite inadequate return of say, 3% in relation to current cost. If the per annum capital growth of the investment, which in recent years has averaged 10% per annum on rural land, was taken into profit it would show a much more attractive return and this of course is the sum that our farmers do and why they are prepared to purchase land for a 3% earnings yield.

(c) A further response of business has been to get liquid by selling properties, i.e. cashing up for the maxium benefit of their proprietorship ratio, and leasing back their properties. One advantage of this process of lease back is of course that the commitment for leases are currently not taken into account in establishing the gearing of the company (and I am one of those who personally believes they should be by capitalising lease liabilities) although of course the company has to be sufficiently profitable to meet the rental on the properties and still show sufficient earnings to cover the interest on their residual borrowings.

(B) The second pressure that is developing is the fear of recession. This brings with it the concern that some properties will not continue to value up too well. In particular, these are properties that are in secondary areas or secondary locations in good areas, and properties that have a special use and where the industry that uses them is suffering reduced returns. There may well therefore be a period when despite inflation, there is not upward revaluation of properties. Worse still, we may have to revalue them downwards. For if we are prepared to revalue properties and take them into our statement of wealth of the company through the profit and loss account and/or revaluation reserves to shareholders' funds, then we must also take the write-downs in a similar manner. If a real recession occurred therefore, the effect on our profit and loss account and our shareholders' funds and our balance sheet ratios could be severe indeed.

What does all this mean for the influence and management of property in relation to company investment and takeovers?

1. Obviously there is a real pressure for earnings. If earnings continue to be adequate then revaluations continue to be possible as the business which occupies the premises can pay the increased rentals.
2. All assets of the business must earn to capacity and this includes property. For too long in the past property portfolios have not been judged in relation to the contribution they make to the earnings and wealth of the company compared with operating divisions.

Property earnings are of course a combination of the income stream they generate and the capital gain they generate.

It is most important therefore that the rentals paid by operating companies should be related to the market place and be market rentals for the quality of space they occupy.

And,

Property should only be held where capital gain (the second element of property earnings) is assured and can be maximised.

For this reason the main centres are attractive, not the Edendale's or the Dannevirke's, or some of New Zealand's secondary and tertiary centres which are unlikely to grow (because of reduced pressure of demand) as rapidly as the prime real estate growth centres.

As revaluation of property is important in keeping balance sheet ratios in order in times of inflation, some property (and preferably well located property) is important unless the earnings of the business are at such a high level to give positive effects of gearing up and a positive cash flow from trading after the inflation on stocks and debtors has been allowed for. If this is the case and there are few companies in New Zealand where it is, then the company can afford to own no property at all. In fact,. because of the benefits of gearing leasing, property at say, 10% of market value, will increase the return on shareholders' funds. Such a company would obviously make more money if its total assets are invested as working capital which show a better re urn than a 10% rental plus 10% per annum capital gain tax free (provided it is held for longer than 10 years) which grossed up for tax is 20%, a total of 30% on total tangible assets, pretax and interest. This;. as I have said, is unlikely for most New Zealand business today, but is the level of return required for a trading company to be self funding.

As a generalisation therefore, all New Zealand business should have well located growth property in its balance sheet that can show the above sort of margins. Lease back (other than in areas of low growth) and particularly for those companies not showing approximately 30% earnings on their working capital against inflation rates can precipitate the demise of the business and there are several examples in New Zealand's corporate history that can prove this. So, in relation to company investment, unless a company has the positive effect of gearing, and can make 30% on total tangible assets, as a generalisation all companies:

(a) should hold a percentage of their assets in good property rather than lease.

(b) should revalue their property portfolio, regularly, say each three years.

(c) should take their revaluation to reserves.

(d) should insist that its occupying companies pay a market rental for their, space.

I appreciate this will be heresy for some- but I believe it to be true in the present environment and indeed it would be true if we revert to non-inflationary times again,. although the pressure to operate in such a. manner would clearly reduce.

If we operate in this way:

(a) We can revalue our properties and help, keep our balance sheet ratios respectable;

(b) There is a pressure on operating management to perform, and hence

(c) We have a greater likelihood of keeping our earnings up and our share price close to net tangible asset backing per share and therefore minimise our exposure to takeover from the corporate raider/asset stripper/business rationaliser, or whoever.

These people are looking for the benefits that can be gained from takeovers from the- synergy that exists (synergy being the theory that $2 + 2 = 5$) from:

(a) The release of capital, or

(b) The increased earnings that are available by putting two organisations together, either through increased earnings or reduced costs (generally from savings in staff and overheads).

Creation of capital gain is the real key by purchasing the company at a discount compared with the market value of the assets. Very often the critical judgement in this process is how the market value of the properties compares with their book value.

Which brings me to property management. Property, clearly must be professionally managed to yield market rentals and maximum capital growth with minimum cost of repairs and maintenance. There is no question about this.

The property division of a company must be and be seen to be totally objective to do the best thing possible for the operating companies that generate the majority of the company income, that pay the rentals and therefore in turn create the values of the property. It is important, where the property division is created as a separate profit centre, that conflicts of interest don't arise otherwise it can result in duplication of effort as operating companies seek to ensure that they have objective and best advice by employing external consultants. This is a sensitive area of company management and there are many examples in business today where in-house service activities such as property management or computers, that have become aggressive, revenue-producing, external profit earners in their own right, lose their objectivity and the trust of other line management which inevitably results in duplicated cost.

Finally, what does all this mean for the valuer?

1. Property management has to be professional and for those of you who are involved in it, this calls for a variety of skills from attention to detail in the administration of existing property; to an understanding of marketing, property development and valuation; to the flair that is necessary to perceive and create opportunities and hence value in property development work.

   There will be a growing realisation of this by company managers and a growing demand therefore for a professional service. If the company has not got the scale to do this professionally internally (and few have in my view) they will need to employ the necessary expertise. There is a marketing opportunity for property consultants to bring to management's attention the opportunity cost of excessively conservative property management.

2. There will be a growing pressure for first class property by the professional portfolio managers, albeit at lower relative starting yields. Already we are seeing this with the institutions like the AMP Society who are very selective as to where they put their money. Fletcher Challenge are the same - we can't get excited about owning Real Estate in secondary centres.

3. The revaluation dilemma. What is value? In general use property, i.e. that with many potential occupiers from many different businesses, this is reasonably straightforward and can be arrived at by the normal process of capitalisation of net rentals and replacement cost less depreciation.

   It is special use property, i.e. that which has been built for a specific occupier or business, which is more difficult. What is the special use property worth? For example, the Tasman mill at Kawerau. Is replacement cost less depreciation a valid method of valuation? It may well have been last year when the mill produced many million dollars in profit but this year, when it is running at a marginal profit, one could hardly be so certain. And if for reasons of lack of international competitiveness, the plant had to be closed (which I hasten to assure you will not be the case), what then is its value? We have all read and some of us seen the ghost-like multi-storied structures in the midlands of England which once used to be profitable woollen or cotton mills.

   Similarly you can ask the question with Wrightcars - what is the value of these premises with a low percentage of site usage and buildings this year compared with last. Or the value of the Toyota assembly plant at Thames.

Generally speaking, these valuations of special use property for industry have to be on a going concern basis assuming the continued occupancy of the existing tenant, whose profitability is supposedly sufficient to pay a fair market rental on the value ascribed to the plant. If the rental is too high however, and it cannot economically be occupied by the present incumbent, then alternative uses will have to be found for those premises which may very well as a consequence have a markedly different, and probably reduced, value.

Clearly it is essential that the valuer has an understanding of industry economics. The technicalities and demands of the profession are growing. What is the future economic life:

- of a Tasman mill due to changing technology and world markets?
- of a Wrightcars retail outlet due to changes in central city values, the economics of motor vehicle retailing? Can you afford to retail vehicles off land in excess of $10 per square foot in cost?

  of some of our meat companies with the problems of hygiene requirements, upgrading costs, de-licensing of the industry giving excess capacity, etc.

So in summary:

Demanding times for you as professionals which, if you are equal to the challenges, can only enhance the standing of your profession. I am personally glad I spend more time these days criticising valuations than I do in having to establish them!

1. Property is very often the key to the correct valuation of a company. It's NTAB - whether or not there are hidden reserves. Because of the pressures of a decade of double-digit inflation most companies have revalued property in recent years to keep their balance sheet ratios in order. Good property has been a key factor in survival for many companies. In looking at a company's property portfolio, however, it is important not just to know current market values of the existing land and buildings but to know to what use they can be put with a little imagination and flair - to be able, for example, to see the potential in old surplus woolstores for central city high-density residential property. That flair that I was talking of previously.
2. Property must be managed well and aggressively as with all other assets of the business today, to generate maximum yields from both rentals and capital growth. This will lead to increasing emphasis on premium property which means excellent locations. The upward pressure on rentals for in-house occupying companies in turn makes them continually address difficult economic alternatives particularly with regard to their location and their type of operation, and most importantly the profitability of their operations. For all these reasons there is a greater likelihood of share price being closer to NTAB per share and therefore the prospect of takeover being reduced.
3. The valuer's task is increasingly difficult. Besides being conversant with replacement cost he must understand the economics of the industry occupier which is paying the rentals particularly those occupying special purpose buildings. While businessmen are only too happy to revalue premises and take the unrealised gains through to capital reserves, they will be distinctly unhappy about it should the reverse occur. Should the present recession turn to depression, there will be some real debate!

I have purposely left a little time for questions and will do my best to answer any that you may have.

Commentary by A. P. Laing, B.Com, Dip. Ag., Dip. V.F.M., F.N.Z.LV., A.C.A.

As well as being a valuer Ian is an executive director of New Zealand's largest public company, FLETCHER CHALLENGE, and for this reason as well as the quality of the document, I would recommend that you study the 1982 Annual Report of that Conglomerate along with the paper we have just heard. That Report shows clearly in quantative terms many of the matters outlined in Ian's paper.

In the paper we have had the traditional or past attitude towards property philosophy outlined; been shown how that was mirrored in the accountancy treatment and then under double digit inflation, with consequent inadequate business returns, how it has been necessary to revalue assets to maintain Balance Sheet ratios. The scope for revaluation in the absence of adequate earnings has been described as "the saving grace of N.Z. business."

Reference has been made to Creative Accounting in the section of the paper discussing the maintenance of Trust Deed Ratios, and to the procedure of taking the revaluation of assets into reserves via the P and L account. I wonder if the property consultant does have a role to play in advising on appropriate procedures, possibly on a multi-disciplinary basis? Options open to a company include an amortisation of the revaluation write-up, over the remaining life of the property; or to retain the credit in a revoluation reserve until the property is sold. The recently amended Sec. 4 of the Tax Act relating to dividends now includes a 10-year `return of capital' provision for Bonus Issues so the latter approach may be more appropriate. I raise these issues to ask should we as valuers and property consultants consider ourselves competent to advise on these matters, paricularly in an association with other professions?

May I draw attention to references to lease-back techniques. These clearly set out situations in which it may be a viable option, including for properties in areas of low growth and for companies showing a sufficient return on working capital; also note the suggestion that companies should capitalise lease liabilities.

In the next section the conclusions drawn from the analysis are applied and Ian has laid down principles (modestly passed off as generalisations) which could be applied to the management of property in the company context. Do note the words of warning about the management of the property "cost centre" becoming too aggressive, when objectivity and the trust of other line management could be lost.

A conclusion is drawn that the efficient management of property along with realistic valuation disclosure, will help keep the corporate raider or take over company at bay, or conversely ensure a realistic value of shares in a merger situation.

In the final section the role of the valuer is considered. Ian states "There is a marketing opportunity for property consultants to bring to management's attention the cost of excessively conservative property management." Here we are being given a challenge to market our expertise not only as valuers but as property consultants. Marketing involves the definition of, and research into, a market; followed by the creation of a product to satisfy the needs of that market. Currently the N.Z. Society of Accountants is promoting its members superior tax counselling services. Should we be considering doing a promotion for our members? Please carefully consider Ian's comments for they come from our market.

There is much to discuss in the section "The Valuation Dilemma." In relation to special use properties the question is asked what is a special use property worth? and uses the Tasman Mill at Kawerau as an example. The problems of valuing the Mill are outlined, then he asks what is its value?

If we refer to the 1982 Annual Report and turn to "Notes to Financial Statement" No. 1 (b) it states:

> "The Kawerau mill site pulp and paper plant and structures of Tasman Pulp and Paper Company Limited have been revalued by $142,979,000 on 31 December 1981 being 55 per cent of the difference between book value at 30 June 1981 and depreciated replacement cost as determined by Registered Valuers and Registered Consulting Engineers."

Now this leads to the interesting situation where the valuers, with hopefully a sound understanding of this industry's economics, would in assessing their valuation on the basis of replacement cost less depreciation, and on a going concern basis, would no doubt have taken obsolesence among other factors into consideration when assessing the depreciation content. In this situation have the Directors overruled the professional valuers and had the final say in the valuation that has been adopted for the Balance Sheet and which affects the profits for the year? This may be so, for provided the method of valuation is disclosed, it is acceptable for accounting purposes.

As an aside I wonder if financial analysts would interpret this discounting of the Registered Valuers and Consulting Engineers valuation as some indication of the current efficiency of the Kawerau mill as a trading unit?

I mention this as it is a real life situation and of considerable importance to valuers, and indeed Ian may wish to comment on this.

In conclusion may I say that I have gained much from the opportunity to comment on Ian's paper and thoroughly recommend it to you for closer study for it clearly sets out how company directors regard property as well as raising issues which will affect the future of our profession.

Only Selected Questions and Answers have been printed

"'The Influence and Management of Property in Relation to Company Investment and Takeovers"

Q. Laing

Why engage a Valuer and use a reduced figure for accounting purposes?

A. Donald

Valuations by independent valuers for accounting purposes are one of the considerations that we must take into account.

However you have got to construct a figure that is a reasonable figure for valuation purposes and that is a director's responsibility and directors have to be satisfied that the value of the assets of the Company are fair and reasonable.

Factors that Affect Commercial Decisions on Real Estate

by Eion S. Edgar, B.Com., A.C.A., M.P.M.I., A.C.I.S.

In preparing my speech I was often distracted by the many cricket matches on this summer. These distractions made me realise that the factors that affect commercial decisions on real estate are very like selecting a cricket team. In selecting any cricket team you firstly must have two openers. Likewise in considering the purchase of any commercial real estate for openers we must consider Location and Location.

The first location is in which city or town should you purchase your real estate and once this is decided, where in that city should your purchase be located. Let us now look at location further.

When one considers area location in a New Zealand context the trend in recent times has been to consider Auckland as the only place to invest, except for high rise office buildings in the capital. However, while well located property in both these areas has shown excellent growth in rental and capital values I am sure you can all give examples from your own area which have experienced similar growth. In these cases I am sure location has been paramount.

With the advent of Closer Economic Relations with Australia, we could see a change in these demand factors, particularly for industrial buildings. Where in the past any New Zealand manufacturer tended to locate in Auckland if he was aiming at the mass consumer market as half of the population was within 250 kilometres of him, unless of course there were historic or supply reasons for another location.

Today Sydney and Melbourne are bigger markets so a manufacturer for the mass consumer market should shift his base there. Thus, the manufacturer must decide either to go to his major market or alternatively to site himself where there is cheaper labour and overheads and a convenient transport system. In this regard, places like Dunedin with its efficient container port and Invercargill could gain as they both have these characteristics. In addition, a manufacturer can get his goods into Sydney or Melbourne quickly and cheaper than he can into Auckland. It will take time for these changes to emerge although already we have seen interest in Dunedin from major Australian manufacturers.

Sometimes your location question may be a very easy one to answer as you or your tenant may require a building to be sited near a major supplier or end user if it is a manufacturing business. However, even in this case there will be preferred sites, i.e. on main road for ease of delivery and self promotion.

Location is also a lot more important for certain types of real estate. The most obvious of course being retail, where location is everything. Every city has its prime area of retail spending and ownership of some of this real estate will ensure too of the market rentals and a strong demand if any vacancy occurs. In fact, a vacancy will normally allow key money to be charged.. While there is criticism of this practice by retailers it is only a recognition that it is a prime location and rentals should be higher.

Example: On leasing a shop in the Golden Block in Dunedin we offered it with key money of $15,000 for a five year lease. The retailer who wanted the shop said that this was quite reasonable because when he divided it over the period of the lease and added it to the rental it was still cheap. Made me think my valuers hadn't pitched the rental high enough. In fact, key money was originated by outgoing retailers who wanted payment for the unexpired portion of their lease. Can you blame the lessor for wanting a piece of the action.

In looking at location it is also important to be aware of any possible changes in a city's commercial centre. Changes that can alter this centre are:

1. Alteration of public transport routes.
2. The rise or fall of a major store, e.g. Milne & Choyce in Auckland.
3. Development of some high rise buildings.

I am sure you all know examples of major changes in cities. For example in Wellington, Lambton Quay was desolate prior to 1940. While in Invercargill, Dee Street was once supreme.

Another reason to stress the importance of location is on resale. It must always be easier to sell a well located property.

In summary, unless a purchaser gets his two locations right his innings could collapse.

The next player selected in a cricket team is often the first drop or number three batsman. It is a very important position and we find that most great cricket teams have always had a star at number three. Donald Bradman perhaps being the best example. Likewise in property our vital player is "The Ability to Borrow". One could write a book on the various sources of finance with all their advantages and disadvantages. However, for this paper the important point is the ability to be able to borrow. Obviously if one has substantial assets it is very easy to borrow although even then in times of tight liquidity as we experienced last year it can be difficult. Thus, the quality of the property, its location, its tenant and the period of his lease are all factors that affect an owner's ability to borrow. The terms of borrowing can be important in reaching the selling price. A seller can often achieve a much higher price if he is prepared to leave in a second mortgage for some years at a low interest rate.

The attractiveness of a property for borrowing purposes must be at the forefront of prospective purchaser's mind even if he has the total purchase price on hand at present. Times change and he may want to borrow on this property in the, future. In this regard one should be looking at questionmarks prospective lenders may have. The first of these is leasehold land. While I see advantages for an owner in buying a property situated on perpetual leasehold land provided he can pass the ground rent on to the tenant, as he should not have to pay so much for the land. It does have disadvantages for lenders and norally a first mortgage is limited to 50% of its value as against the normal two-thirds.

Other questions can be asked on location, i.e. some life insurance companies are very reluctant to lend in the South Island; and ability to rent out, i.e. income to service the mortgage interest.

Like in cricket, the vital point in this ability to borrow is usually perseverance. It is amazing how successful property operators have financed some of their purchases.

The next major factor that affects commercial decisions on real estate is the State of the Economy. In our theoretical cricket team we might call this the captain's role. He should have this overview as must a prospective purchaser. The state of the economy affects supply and demand for property. When the economy is buoyant

1. Money is plentiful so it is easier to borrow.

2. Tenants are easy to find.

3. Rental increases are accepted more readily.

Thus, demand for property increases, encouraging developers to expand and these increasingly .costly buildings make existing stock more valuable so everybody wins.

The vital thing for any successful cricket captain or property purchaser is to foresee the trends. We are seeing this in New Zealand now as astute property buyers are searching the market now as they know values will be a lot higher when our economy recovers in 1984 or late 1983. They will also be aware that an election year loosens the purse strings and therefore increases demand for property and rental accommodation. This demand for property has also reflected in demand for shares of property companies listed on the Stock Exchange. All the shares in this sector have risen with the company I am associated with, Robt. Jones Investments Ltd. jumping over 50% this year already.

Our next selection is a hard hitting No. 5 who will carry on the momentum hopefully established by our earlier batsman. This factor is the Quality of the Tenant. In New Zealand I don't believe we differentiate enough between the first class tenant and the below average. For example, one may buy a building with Alex Harvey or Feltex as the tenant to yield 9% whereas if the tenant was a young car painter the yield would be 11%. The argument being of course if the building is well located an owner would soon find another tenant if the car painter shot through. However, I disagree on the grounds of

1. The ability of the tenant to pay a rent increase.

2. Peace of mind.

3. Ability to borrow against the property.

One could say our batsman knows that a major purchase cannot normally be contemplated unless a first class tenant is available, as if he has an empty building he could be out for a duck.

My next selection was a wicketkeeper. Normally an unobtrusive but vital member of any side. In my team this point is "the Attractiveness of the Building". A good looking, structually sound building is easier to finance, lease and sell. In assessing the attractiveness of any building one may be able to buy very well if the seller is not aware of this point and therefore has not tidied up the building before placing it on the market. This situation applies particularly to old buildings and manufacturing premises. Old buildings can be made to look much more attractive with a wash or paint and the feature points highlighted. This can often be done at very little cost, yet may add 10-20% to the sale price. Equally manufacturing premises, particularly where they have been vacated usually look seedy. A good tidy-up of the grounds, toilets and offices can work wonders. Thus, our wicketkeeper doesn't want too many short balls down the leg side, he prefers a good even bounce or should we say good, tidy and sound buildings.

With six factors considered let us now select a good fast bowler who can disrupt even the strongest of opponents. This bowler is a Change of Government Attitude and it can have a profound effect on the market place. This is always a worry to property people, especially those that experienced the Labour Government from 1972 to 1975. That Government seemed to have it in for property developers although the recent budget changes are even worse as you will have already learnt from an earlier speaker. Thus, property owners may not suffer any more under a Labour Government, although it is doubtful that they would change the claw back provisions in this last budget. Also we should remember that a Labour Government normally encourages spending which in turn increases demand thereby benefiting property owners.

My other fast bowler is Taxation but this factor has already been fully covered. I would only like to add that I do not think that the National Government fully realises the adverse effect the recently introduced claw back provision will have on the ballot box. While larger property owners are conscious of its likely impact and have made the necessary provisions before the 31st March, 1983, the large majority of property owners will not become aware of it until they sell a property; be it the corner grocer or the employee with a self contained flat under his house - both will be very anti-Government when they lose most of their gain because they have borrowed to purchase this asset.

To complete my team, three important factors which must be considered in making a commercial decision are:

Cash Flow: It is vital for most property owners to be certain that the expected income is sufficient to meet all outgoings, particularly interest and maintenance. In preparing a cash flow statement make sure you allow for the odd vacancy in a multi-tenancy building and provide for some abnormal expenditure, e.g. major lift repair, painting roof, etc. This is particularly important for a first time purchaser.

Another factor which follows on from this is the Actual Return to the Purchaser. Not the net yield the building is selling at, but the return on his own money, i.e. net rental less annual interest. In deciding on the return a purchaser wants he must balance up between capital gain and immediate income. Trusts and estates for example, may look for a higher immediate return as they require the income while a person on a high income, e.g. a valuer would be emphasising capital gain.

The final player in any cricket team, and a factor which many investors overlook is the amount of Space to Lease in the immediate area. Obviously if there is none it is a good sign of continuing demand. Also one should enquire of any proposed redevelopments which should attract strong tenants and lift rentals in the area. Thus, our rabbit can often get a few runs which can be valuable in a close match, so watch the supply situation.

My twelfth man or is it the drinks driver is a young ambitious player called Unit Titling. If a property is able to be split into unit titles it will enhance its value considerably and make it easier to borrow, i.e. three mortgages of $50,000 are usually easier to find than one of $150,000. I am sure you all know of people who have made large profits by purchasing a property and selling it in unit titles. However, a word of warning here; a recent case by the Taxation Review Authority ruled that since the subdivision of a property was made within 10 years of acquiring the land any profit made on a subsequent sale would be taxable.

To complete my cricket team, we must have a manager and this management factor is often overlooked when one is purchasing real estate. The expected time to be spent in administration should always be considered when one is contemplating a purchase. I know from my own experience that on average it takes many hours a week to manage a multi-tenancy property, particularly where you have small offices and retailers in the complex - they question everything When one compares this with getting one automatic bank payment from a major company on a long lease I suggest the difference in return should be between 2 and 3%.

I am sure that there will be some factors that I have overlooked but if you take into account:

1. Location - geographical.
2. Location - where in city.
3. The Ability to Borrow.
4. The State of the Economy.
5. Quality of the Tenant.
6. Attractiveness of the Building.
7. Change of Government Attitude.
8. Taxation.
9. Cash Flow.
10. Actual Return to Purchaser.
11. Space to Lease in Area.
12. Unit Titling.
13. Management.

and use some "commonsense" I am sure you won't make too many blunders.

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"Factors that Affect Commercial Decisions on Real Estate"

Q. Donald

Relating to rentals you remarked that you felt a reduction of 3% was not unreasonable. I think you mentioned that the lowest starting yields for prime property could be down to 6-7%. What is the range of returns for industrial properties?

A. Edgar

I have not seen any new commercial returns as low as 6, 7 or 8%. Whereas new industrial property has been l01% and for the secondary property we have seen 13-14%.

A. Mahoney

It is hard to generalise on yields because, as commented, they vary from location to location. In the Auckland centre it is as low as 6%, on high-rise buildings in Queen Street 71%. Generally gilt-edged market in peripheral Auckland shows 8%. Suburban office location 9-91% net yield before valuation. Industrial sector around 11%. One recently 9.5%. The lowest listed 9.75% up to about 10%. These are all prime investments. Once you get away from that, the yields on secondhand property only around 10%. Less desirable locations with poor tenants go higher.

Q. Manning

Why have people formed companies to escape "claw back?"

A. - Edgar

Under the present 10 year ownership law it does not affect taxation if you have put your commercial property into a company. You could then, rather than sell property, sell shares in the property. Alternatively, properties can be formed into separate units, or if I was a buyer of commercial property I would want a discount clause taking over liability.

The Future of the Dollar as a Measure of Value and a Medium of Exchange

by R. W. R. White, C.M.G., F.N.Z.C.A., F.C.I.S.

I began the preparation of this paper in a state of acute embarrassment. On the morning I first set pen to paper I read in the Herald that the Minister of Justice had pleaded for the National Party faithful to extol the virtues of the price/wage freeze. While I support the concept of a price/wage freeze for a limited time, let me assure you that my comments today are dictated neither by Mr McLay's pleading nor by the fact that I used to be Governor of the Reserve Bank. I speak to you as a citizen who is concerned for his own welfare, the welfare of his family and the welfare of his fellow New Zealanders.

A Challenge to The Institute

Indeed, rather than extolling the virtues of the moves against inflation which the Government has already initiated, I want to challenge you to lend your voice, the voice of a group of practical people, to arguments aimed at getting the Government to take the further steps which are needed to get inflation down and, most importantly, keep it down.

These further steps - containment of the Government's internal deficit, the encouragement of competition and the outlawing of the misuse of monopoly powers - are bitter pills for any Government to swallow. But swallow them the present Government must if it is to honour its pledge to keep inflation within tolerable bounds.

Why should this annual conference of the Institute of Valuers be particularly concerned about inflation? I believe the answer lies in the fact that inflation makes nonsense of your profession by destroying money as a unit of measurement of value.

Money No Better Than a Rubber Band as a Unit of Measurement

Colin Patterson, now Chairman of the Securities Commission, had this to say in 1975 about money as a unit of measurement of value. "In the Department of Weights and Measures there are kept standard measures and weights, length and the like. These are kept at a constant temperature and under a constant pressure, so that the dimensions and weights never vary. Money is not kept like that; it is tinkered with by every economic force. Because it is not kept at a constant value, it has the same ability for the purpose of measuring as a rubber band."

And yet you, ladies and gentlemen, express your valuations in money terms, a form of measurement which can vary just as the area which may be encompassed by a rubber band can vary. Surely, inflation has made a nonsense of your profession and it is in your interests to do something positive about it.

An Example

Probably, no case better illustrates the difficulties created for valuers by the inconstancy of the dollar than does the valuation of twenty-one year farm leases with perpetual rights of renewal. I understand that many such leases follow the wording of the Public Bodies Leases Act 1969 and provide for the fixing of a fair annual rent of the land with such ground rent to be an even annual sum which shall be neither increased nor decreased during the term of twenty-one years.

It ; s not difficult to produce arguments to show what the rental should be in the absence of inflation. Because of the scarcity value of farm land and because farming is a riskier investment than, say, investment in Government securities, the yield from the rental of farm land has usually carried a premium over and above the yield on absolutely safe financial type investments. I think most experts would agree that the annual rent of farm land, in the absence of monetary inflation, should be in the region of four to six per cent of the value of the land.

But how do experts and arbitrators cope with the need to allow for monetary inflation over the twenty-one years following each renewal of the lease? To me the task seems impossible of performance.

The degree of difficulty facing arbitrators who are called upon to fix rentals of this kind can be appreciated best if the parameters of the problem are drawn in dollar terms. If there were to be no inflation over the next twenty-one years, a farm worth $500,000 today would still be worth approximately the same amount in the year 2004. But if inflation occurs at the rate of fifteen per cent per annum over the twenty-one years of a lease, the farm is likely to be worth nearly $10,000,000 at the end of the lease period. Similarly, the lessee who was in receipt of an income of, say $30,000 in 1983 would, other things being equal, be in receipt of the same income throughout the leases period if there were no inflation. On the other hand, fifteen per cent per annum inflation would result in an income of over $500,000 a year in twenty-one years time.

Given this range of possibilities, it seems to me to be entirely unrealistic to expect an arbirator to fix an even annual sum which would provide a fair annual ground rent for twenty-one years. Quite clearly, an incorrect forecast of the rate of inflation could have a disastrous effect on either the lessee or the lessor. Either the form of such leases must be changed or inflation must be reduced so that it becomes an insignificant factor.

In the meantime, valuers and arbitrators are faced with the problem of fixing rentals on long term leases. Of necessity some estimate of the rate of monetary inflation in the future must be made and I have heard of some ingenious arguments.

One solution has been to take the yield on the longest dated Government stock on issue and, after allowing for some real rate of return to the investor, assume that the balance of the interest rate being paid on that stock represents the investors' estimates of the likely rate of monetary inflation over the period of the stock. Adding this to the assessed real rate of return appropriate to leasehold land gives a total yield on the current value of the property which would be equivalent to a fair fixed annual rental - or so the proponents of this argument would have us believe.

The argument is, however, defective in three ways. First, apart from Inflation Adjusted Bonds, only a very small proportion, less than ten per cent, of the Government stock on issue is held by the ordinary public. The balance is held by Government Departments and financial institutions who are required by the Government to hold such securities. The interest rate is therefore fixed by the Government and not by investors operating in a free market. The interest rate cannot be regarded as representing investors' views about the likely rate of inflation in the future.

The second defect in the argument is that the longest dated Government stock being issued at the moment is one which matures in six years. This is less than one third of the period for which the lease rentals have to be fixed.

The third defect is one which is inherent in the form of the lease - what is prudent for a lessee to pay and what is reasonable for a lessor to receive depends on the actual rate of inflation which eventuates, not on what investors in other securities expect.

Another means of forecasting is one which leads a good many economists into trouble - projecting the past into the future as if history always repeats itself. Hopefully, changing attitudes to inflation will make such forecasts entirely wrong.

A more complex, but none-the-less erroneous, means of fixing the rental on a twenty-one year lease goes something like this. The ground rents paid on long term leases over a number of years are compared with the interest rates paid on each of several kinds of securities. This establishes an average relationship between ground rents and the interest paid on each class of security. This relationship, or ratio, is then applied to the interest rates being paid on each class of security at the time the lease is due for renewal. The results are averaged to provide an indication of the ground rent which would be appropriate for the new lease period.

A major defect of this kind of reasoning is that the securities being traded in a time of high inflation are almost all of the short dated variety or ones which include a clause which enables the interest rate to be varied during the currency of the loan. Proponents of this sort of argument are, therefore, comparing apples with pears - the yield on short dated securities is being compared with a rental which is fixed for twenty-one years.

Arbitrators, faced with evidence which can justify rentals of between about four per cent and twenty per cent of the value of a property - depending on whether the evidence is adduced by the lessee or the lessor - seem to be taking the line that inflation will not continue at present levels for very long. Rentals are being fixed towards the lower end of this range.

The impossibility of accurately forecasting future inflation, an impossibility which I think I have illustrated well enough, shows that a financial contract which is fixed in dollar terms is made nonsensical by inflation. Inflation has made the unit of measurement of value, the dollar, a unit of unpredictable size. Sometimes the rubber band will be stretched and sometimes not.

One Solution Indexation

One way of solving this problem would be to apply an index of inflation, say the Consumers Price Index, to the capital amount of any financial contract (in the case of leases this would be the value of the land at the beginning of the lease) and then calculate the interest payment or rental by multiplying this adjusted capital amount by the real rate of return required. The effect of this would be to adjust financial 'ontracts for the actual rate of inflation as it occurs rather than making a guess at the beginning of the contract as to the future rate of inflation and making the adjustment on this basis. This would make eminently good sense but, in the case of the leases I have been talking about, would require a change in the form of the lease. The reconciliation of conflicting interests in achieving such a change would be difficult indeed.

Other Obstacles to the Indexation of Financial Contracts

Apart from the difficulty of renegotiating existing contracts, the main obstacle to the general acceptance of debt indexation is the reluctance of the Government and of people to alter long established concepts, even though inflation has made those concepts quite fallacious. The principal concept which would have to change before the indexation of financial contracts could become widespread, is the treatment of the whole of the return on financial contracts as income for both accounting and taxation purposes. Recognition of the reality that a major part of interest must be applied to the capital of debt in order to maintain the real value of the amount invested and that a large part of all interest payments should be regarded as a capital payment rather than as revenue, would cost the Government a considerable amount in tax foregone. Other people who have been advantaged by the present system would lose that advantage. Consequently the prospects for indexation do not look bright at this stage, notwithstanding the equity and logic in adjusting for inflation in this way.

Fortunately there is another solution to the problem which is to be greatly preferred to indexation. This solution is the elimination of inflation so that the dollar itself once again becomes a constant unit of measurement.

The Importance of Money as a Medium of Exchange

This solution is preferable to indexation because inflation has an adverse effect on another function of money, an effect which cannot be cured by indexation. This function is the use of money as a medium of exchange in the trading of goods and services.

In an economy in which each of us produces some specialised product or part of a product and in which each of us consumes a host of products made by other people, money provides a standard of value whereby the value of the various goods and services we sell and buy can be measured one against the other. The prices which are charged and paid in this process ultimately determine the goods which will be produced, both as to kind and quantity, to satisfy the demands of people as consumers.

Inflation, by changing the value of money itself distorts and confuses these price signals in a way which destroys the efficiency with which consumers' needs are satisfied by producers. It destroys the ability of consumers to make judgements as to the value of one item against another because rapidly changing prices in a time of high inflation make price comparisons extremely diffcult.

1 have had to do the household shopping recently and I must say that after a few weeks I have no recollection of the price of most of the goods I have purchased. This situation contrasts with the no-inflation situation which existed when I started work as a grocer's boy in 1937. Then many prices remained stable for years at a time and customers knew precisely what items they could afford to buy with their incomes and woe betide the shopkeeper who tried to lift his profit margin by a penny. Customers would depart at high speed.

Perhaps this aspect of price stability, the preservation of money as an efficient medium of exchange, seems to be of only academic importance. But if you think about it for a while, I am sure that you will realise that money, as a medium of exchange and as a standard value, is the linchpin which holds together our complex economy of production and consumption. Allow inflation to destroy the efficiency of this linchpin and the whole system is likely to disintegrate.

A Prescription for the Elimination of Inflation

What action is needed to eliminate inflation?

The Will

I would answer this question, first and foremost, by specifying that the will to beat inflation is the most important part of the prescription. This is why I hope this meeting will make strong representations to the Government expressing concern at the practical problems inflation creates for you as professional people and as citizens. Curing inflation is a very uncomfortable exercise for politicians and the Government will need all the encouragement possible in carrying out the task it has begun.

The Price/Wage Freeze

Secondly people must recognise that once inflation has become entrenched, as was the case in New Zealand. some sort of surgery is necessary to break the sequence of cost/price increases.

I liken inflation to skin cancer. Removing the condition which caused the cancer in the first place is of little use by itself, excision is necessary as well. So it is with inflation and of the two kinds of excision available - a price/wage freeze or very tough fiscal and monetary policies - I believe that in New Zealand's situation less damage will be done by the first than would be done by the second.

Whichever surgical technique is used we must accept, and the Government must accept, that the patient must not be exposed again to the causes of inflation. After all, a person who has had a skin cancer caused by sunburn is worse than foolish if he sunbathes again having the diseased part cut out_

The usual description of the cause of inflation. "too much money chasing too few goods" is a fair enough starting point for a discussion on what should be done to avoid the causes of inflation.

Usually, and I believe rightly, attention is concentrated on the money part of this statement because the amount of money available for spending can be varied by a greater amount and more quickly than can the goods available for purchase. However, in looking at the money aspect we should bear in mind that action to restrict the amount of money available for spending should not reduce the volume of goods available to a greater extent than is absolutely necessary. Keeping up the supply of goods is important both from the anti-inflation and the standard of living points of view. This is the main reason for preferring surgery of the price/wage freeze kind as against the alternative of strangling business and employment by very tough monetary and fiscal policies.

Containment of the Amount of Money Available for Spending

Nevertheless, once the sequence of cost/price increases has been broken, the rate of increase in the money available for spending must be kept down to the rate of increase in the volume of goods available for purchase. In the achievement of this objective the Government's fiscal policy is all important. At least this is so in New Zealand where the Government has the power to draw cheques on the banking system with no limit other than the expenditure sanctions imposed by Parliament - which the Government controls.

If inflation is to be contained, the Government must use its ability to create money in a way which ensures that the money available for spending in the community as a whole, after allowance for the effects of the balance of payments, is no greater than is necessary to purchase the available goods at a zero level of price increases.

This in no way means that the deficit before borrowing, as stated in the Budget in its present format, should be zero. There are several reasons why this should be so.

The Government is a very large spender on capital assets, the benefits from which will accrue for years to come. It is appropriate, therefore, for part of the cost of these projects to be passed on to future taxpayers by the use of loan finance to finance the purchase of the assets. This would show up as a deficit in the Government's accounts.

Another factor which affects the validity of the Government's internal deficit is the balance of payments position. If the domestic economy is to be kept on a reasonably even keel, the effect on the domestic money supply of any imbalance in the foreign exchange outcome should be off-set by the appropriate fiscal action provided, and I stress the proviso, the foreign exchange imbalance is of the cyclical kind which is likely to reverse itself in the future.

While inflation continues it is also pertinent to recognise that a good part of the Government's interest bill ($1,200 million in the 1982/83 Budget) can be regarded properly as a captal repayment which justifies further borrowing rather than being classed as a revenue item.

Indeed, the Government has been somewhat masochistic in the presentation of its own accounts in that it has painted the deficit in about as gloomy colours as possible. It would be helpful if the Budget showed clearly, preferably in current cost accounting terms, the true revenue surplus or deficit after allowing for depreciation on capital assets, the amount of new capital expenditure and the means by which any deficit is to be financed. In addition, the Government should explain in the Budget the likely monetary effects of its surplus or deficit as qualified by the method of financing proposed. To do this would require a forecast of the balance of payments outcome and, although I know from sad experience how difficult it is to achieve accuracy in this field, such forecasts are necessary if the monetary effects of the Government's deficit are to be traced. Since the Government has elected to manage the exchange rate, and therefore to create foreign exchange imbalances from time to time, it could be said that the Government has an obligation to the public to state what the results of its management are likely to be.

A clear statement by the Government of the monetary effects of the fiscal policy proposed and of the projected balance of payments position would do much to ensure that the Government adopted a non-inflationary stance and to allay the public's expectations of inflation.

Need To Eliminate Protection and Monopolies

Whether a democratic government can adopt a sound, non-inflationary fiscal policy depends very much on the pressures exerted by some sections of the public to increase their shares of total incomes through the exercise of the power given to them by protection from competition. If any group, be it importers having the benefit of import licences which are limited as to the total amount issued, or manufacturers who are protected from competition by import licensing, professions and trades which can fix prices because entry to the group is restricted by statute or by agreement, or businesses which use a monopoly position in the market to increase prices or labour unions which use their collective bargaining power to increase wages faster than productivity; if any of these groups fix prices at a higher level than would be justified in a free and competitive situation; then the rest of the income earners in the economy must suffer a lower level of real incomes if total incomes are to be kept at non-inflationary levels.

In practice, this off-setting of incomes tends not to happen. In a democracy, and given a strong sense of fair play in the community at large, the tendency is for the money incomes of the people in a weak negotiating position to be increased by Government edict to match the incomes of the stronger groups. If this happens, and if the economic resources of the country are to be reasonably fully employed, the increase in money incomes is usually validated by an increase in the money available. That is by an increase in the Government's deficit. Inflation follows as surely as night follows day.

If inflation is to, be stifled it is essential that all kinds of protection from competition be eliminated and the formation of monopolies prevented. Moves have already been made against business monopolies in the form of the Commerce Act. However, much remains to be done in the reduction of protection engendered by various statutory requirements and in extending the philosophy which is inherent in the Commerce Act to labour unions.

Overseas Inflation

People often argue that we must accept inflation because our trading partners overseas also suffer the disease and we cannot avoid importing it. This is fallacious. If we can keep inflation out of our domestic cost structure we can neutralise overseas inflation by revaluing the exchange rate. I should emphasise, however, that this comment applies only in respect to generalised inflation overseas which affects both import and export prices by similiar amounts. The change in oil prices, for example, which permanently affected our terms of trade and, therefore New Zealand's real income, cannot be validly offset by exchange rate changes and must be allowed to come through into the domestic cost structure.

Conclusion

Ladies and gentlemen, inflation is not inevitable if we have the will to face up to it. I urge you to add your influence to the battle against what is undoubtedly New Zealand's number one: economic ailment.

The Influence of Taxation on Property Investment

by Ralph Frizzell, Dip. V.F.M., F.N.Z.I.V.

Introduction

It was only after accepting the invitation to contribute a paper to your Seminar and then applying myself to writing it, that I began to realise the wide ranging implications of the title.

I could perhaps have discussed the different cash yields obtained from urban and agricultural land investment, the implications of depreciation rates based on historic costs, the capital development from revenue, and presented nothing particularly new to anyone.

I have, however, chosen and hope I will be forgiven for narrowing the field rather drastically. I intend to make most of my observations and suggestions about what I think the effects of the Income Tax Amendment Act (No. 2) 1982 are likely to have on the field of horticultural land investment in general and more particularly the effects on land suitable for kiwifruit production in the Bay of Plenty.

I expect that members with largely urban interests will be able to extrapolate my comments into an urban context where appropriate - in any case, my commentator is sufficiently perspicacious and articulate to do so most adequately.

To simplify the matter, I will generally discuss the effect of the legislation on the basis of "all other things being equal" by which I mean that the supply and demand relationship for the land would remain constant as would future revenue and cost expectations.

General Comments

Prior to the 1982 Budget the supply and demand for horticultural land was in a state which gave a relatively close range distribution of prices and revenue and cost expectations were generally well understood in the market.

The new legislation has changed development costs detrimentally so that all other things being equal the price of undeveloped land (if not developed land) would fall to a new and lower equilibrium price.

The market would in the short term have a much wider distribution of prices, initially in the lower price range, or a period of bargain buying for the best informed purchasers.

A factor we have with rural land which is moving to a more intensive use is the relative elasticity of supply in the medium term. In the Bay of Plenty if demand falls, more land will be retained in dairy use, some will return to dairy use at little cost, and in both cases will remain usefully revenue-producing.

I would expect therefore that there will be some quite wide variations in the short term.

As supply and demand reach a new equilibrium, prices will probably establish at different levels in real terms from those existing prior to the legislation.

It is the factor of cost and revenue, i.e. the economic worth of the land which I will discuss in more detail rather than the short term "technical" adjustment due to disequilibrium in supply and demand. The latter however should not be disregarded as a major factor in the short term.

The Historic Land Market

The oft quoted comment of extraordinary increases in the horticultural land price in recent years, often attributed to the different taxation structure would not appear to be borne out in general practice as Table I shows.

There are, however, different areas and classes of land where the general trend does not apply.

There is also the now recorded increment in price from land changing from agricultural and or livestock use to horticultural use.

A comparison of the Bay of Plenty horticultural land prices with New Zealand horticultural land prices over the last three years is not particularly conclusive in creating a comparison, partly because of the smallness of the samples.

Table 1- New Zealand Land Price Indices

	Horticultural Land			Total Rural Land		
Period	Index	Variation	%	Index	Variation	%
1976	517	+ 22.9		573	+ 10.1	
1977	589	+ 14.0		644	+ 12.4	
1978	658	+ 11.6		705	+ 9.5	
1979	814	+ 23.8		812	+ 15.1	
1980	1,000	+ 22.8		1,000	+ 23.2	
June 1981	1,229	+ 15.4)	519	1,305	+ 19.6)	+ 531
December 1981	1,519	+ 23.6)		1,531	+ 17.3)	
June 1982	1,755	+ 15.5)	302	1,828	+ 19.4)	+ 315
December 1982	1,978	+ 12.7)		2,014	+ 10.2)	

Table II - National and Regional Horticultural Land Prices

Period	Bay of Plenty No. of Units	Bay of Plenty Price Per Ha	New Zealand No. of Units	New Zealand Price Per Ha
June 1980	19	$32,656	135	$10,121
December 1980	20	$34,908	188	$13,408
June 1981	46	$49,958	232	$18,205
December 1981	42	$52,004	267	$19,331
June 1982	25	$57,746	193	$22,077
December 1982	24	$43,996	152	$22,202

From the foregoing tables at least there appears to. be little real evidence that general investment in horticultural land has merit above other land, or that investment in Bay of Plenty horticultural land has any great merit over other horticultural land.

A major underlying reason, therefore, for any increased interest in horticultural investment must be that the real productive worth of a particular holding or class of property can be increased more economically than agricultural livestock land.

The above situation must surely be a major factor which introduced an increasing proportion of businessmen into particular types of horticultural land ownership.

The following table would tend to support this observation.

Table III - Land Purchase Analysis

Sales Activity		6/80	12/80	6/81	12/81	6/82	12/82
		Six Month Period Ending					
N.Z. - F/H, Sales All Units		2,376	2,349	2,595	2,635	2,058	1,716
N.Z. - F/H, Sales (Businessman) Units		258	297	375	468	395	303
N.Z. - F/H, Hort. Sales	- Units	135	188	232	267	193	152
	- Other	186	246	228	324	239	212
	- Total	321	434	460	591	432	364
N.Z. - F/H, Hort. Sales (B.M.)	Units	20	41	58	72	60	59
	- Other	54	*67*	*69*	113	71	81
	- Total	74	108	127	185	131	140
BOP F/H, Hort. Sales	- Units	19	20	46	42	25	15
	- Other	45	78	74	85	50	54
	- Total	64	98	120	127	75	69
BOP F/H, Hort. Sales (B.M.)	Units	2	7	8	7	12	11
	- Other	18	35	30	35	18	23
	- Total	20	42	38	42	30	34

These figures confirm that nationally businessmen while being responsible for about 10-15% of total sales activity in rural land invested in the horticultural land sector to the order of 20-25'% and horticultural land in the Bay of Plenty area to the order of 40-45%.

This sales activity occurred over a period during which it was known that the Export Sales Incentive Allowance as it affected kiwifruit orchardists was to be substantially changed from 1.4.1983.

It would only be during the latter part of the six-month period ending December 1982 that any effect (if any) from the 1982 Budget and the subsequent legislation as effected was likely to be evident.

The Legislation

The Bay of Plenty Times of 19 February 1983 under the by-line of the Rural Reporter had the following headline: "Kiwifruit Industry blames Tax change for Gloom" and the N.Z. Society of Accountants Journal of the same month had a somewhat less sensational headline at page 27 "Life in the Provinces: An uncertain future abiding in the vine".

It is, indeed, easy to simplify an extremely complex matter such as the land investment market to a single cause like the Income Tax Amendment Act (No. 2) 1982.

Other matters of major significance could well be, for example, changes in attitude toward future income expectations, other cost increases, or a re-appraisal of the element of risk.

One does not however have to be a genius to realise that Section 23 which enables the re-appraisal of taxation deductions for interest and depreciation where a property is sold within 10 years of purchase, will in general terms require investors to consider a longer horizon than could have been considered otherwise.

This re-appraisal of the time horizon applies not only to the "one shot" businessman investor but also to the "working farmer" to the extent that he will be required to purchase a replacement "economic unit" (whatever that may mean) and hold this replacement unit for 10 years before he is forgiven his liability for the recovery of interest paid and depreciation claimed on the initial holding over the first ten years of that ownership.

In general terms, it seems likely that for all classes of land there will be a long term reduction in turnover rates but this may or may not lead to an increase in price because of the great effect expansionary purchasers have on the overall market.

Further development appears to be under Section 32 entrenched in the hands of the existing farmers because it places an annual $10,000 maximum tax loss against other income for any part time or absentee owner. This must have the effect of either lengthening the development period, increasing the number of syndicate members, or both.

Such lengthening effects will increase the real cost of land development where the annual losses under the most efficient technology exceed the statutory limit.

New and full time farmers are able with the consent of the Inland Revenue Department to exceed this $10,000 maximum but in practical terms this would not apply in many cases.

Absentee owners are able to ultimately claim losses in excess of the annual $10,000 in the carryover provisions but of course these benefits are delayed - sometimes for quite lengthy periods.

The Historic Horticultural Land Market

An analysis of the sales of horticultural land in New Zealand and the Bay of Plenty over the last three years show (in Table II) that sales volume reached its peak in the 1981 year with a drop in the New Zealand volume of 31% and Bay of Plenty 44% in 1982. Too much could be read into the regional figure but there is no doubt there was a decrease in sales activity in both New Zealand and the Bay of Plenty in 1982.

An examination of Table III can be made to pinpoint where the reduction in sales activity occurred.

Such analysis shows firstly

N.Z. all sales showed a reduction of 28%, horticultural sales *24%*,

and secondly

N.Z. businessmen all sales purchases a reduction of 17%, businessmen horticultural purchasers 13%,

and thirdly

BOP horticultural sales a reduction of *42%*, businessmen horticultural purchasers 20%.

In summary - the reduced overall sales activity between 1981 and 1982 was common to both livestock and horticultural properties nationally. The reduction however was greater on horticultural properties in the Bay of Plenty than nationally.

Nationally the horticultural land market differed little from the livestock market in both turnover and price.

Businessmen showed a more sustained interest than other buyers in overall sales.

They retained more interest in the horticultural land market than the livestock market with a relatively greater interest in developed horticultural units nationally but in undeveloped units in the Bay of Plenty. As the legislation to be discussed seems to apply largely to businessmen investing in horticulture the following tables analyse the sales figures in Table III to present as a percentage of total turnover the activity of businessmen in the horticultural land market.

Table IV - % Businessmen/Total Sales

		Six Month Period Ending..........................					
Sales Activity		6/80	12/80	6/81	12/81	6/82	12/82
N.Z. % Bus. Sales/All Units		10.8	12.6	14.5	17.8	19.2	17.7
N.Z. -%o Bus. Sales/Hort.	Units	14.8	21.8	25.0	27.0	31.1	38.8
	- Other	29.0	27.2	29.7	42.3	36.8	38.2
	- Total	23.1	24.9	27.6	31.3	30.3	38.5
BOP % Bus. Sales/Hort.	- Units	10.5	35.0	17.4	16.7	48.0	73.3
	- Other	40.0	44.9	40.5	41.2	36.0	42.6
	- Total	31.3	42.9	31.7	33.1	40.0	49.3

	Three Year Period 1980/82
N.Z. - % Bus. Sales/All Units.	15.27%
N.Z. - % Bus. Sales/Hort. Total.	29.40%
BOP % Bus. Sales/Hort. - Total.	37.25%

The activity of businessmen purchasers over this three year period increased nationally, with a greater increase in horticulture than livestock, and with a still greater increase in BOP horticultural land than national horticultural land.

Future Market Effect

General

Legislation which affects approximately 40% of the purchasers in New Zealand wide horticultural sales and upward of 50% in the BOP, must affect the total market.

The effect of the legislation can have two main effects, i.e...........

(a) The complete removal of a proportion of investors from the market.

(b) The effect of changed investment criteria on the purchasers remaining.

Livestock Properties

There appears to be little to affect long-term livestock units investment criteria compared with horticultural units because of .. .

(a) The generally lower level of syndicate ownership.

(b) The lesser scope for immediate and large scale development.

(c) The development occurs within a given land use generally rather than moving to a higher use - i.e. the degree of development is much less, and the servicing of undeveloped potential is less.

(d) The generally lower turnover rate - horticulture has a turnover rate 2-3 times higher than livestock, i.e. a statistical time horizon of 15-20 years rather than 40 years (in both cases ignoring inter-generation family transfers).

Horticultural Properties

The effect on horticultural development can be viewed under two headings:

(a) Non-businessman investment;
(b) Businessman investment.

Non-Business Investment in Horticulture

Over the 3-year period this has decreased from about *75%* of Total Sales to 65% of Total Sales, and 70% to 55% of BOP Sales. The following table shows the categories in which these purchases occurred:

Table V - Non-Business Purchases of Land

		Six Month Period Ending					
Sales Activity		6/80	12/80	6/81	12/81	6/82	12/82
Horticultural Sales Total	Enlarged	68	74	73	243	182	137
	Changed	65	91	108	-		
	New Farm	89	142	132	155	110	83
	Other	25	19	20	8	9	7
Total		247	326	333	406	301	227

The above table indicates that on a national scale, there was both a reduction from the peak in late 1981 of the numbers enlarging their units and in the number of new full time farmers entering the industry. This could well reflect a lessening of confidence in horticulture, or a lessening of interest with the phasing out of the historic export incentive scheme taking effect as at 1/4/83, a tightening of available purchase finance, or any combination of these reasons, or others.

The new legislation would be unlikely to affect the numbers interested in farm enlargement as the monopoly creation of the favoured farmers who under the new Section 188A are "existing farmers" who would be carrying out an "established activity" or a "related activity" - on balance, it seems to me that all other things considered, enlargement should at least remain constant or could increase depending on the confidence level existing.

New farmers would be expected to have a time horizon unlikely for the legislation to affect decision making.

Business Investment in Horticulture

The reaction of the businessman investor will become the critical factor in determining the total level of sales activity and hence investment.

The most immediate concern of the business investor relative to this legislation will be . . .

(a) The $10,000 limit in Tax deductible losses.

(b) The 10 year write-back of interest charges and depreciation claims on capital gains in the land.

The $10,000 Limit

The $10,000 limit has been fixed by legislation and has not (and as a guessing man I would say it is unlikely) been inflation-proofed for the foreseeable future so that the investor is concerned with . . .

(a) The lower gearing possible in terms of borrowed capital at the initial purchase and at mid development.

(b) The high capital cost of using the most recent techniques to shorten the development period from traditional forms of development.

(c) The effect of cost inflation on the monetary cost of future development stages in terms of creating cash flow problems.

Gearing

On the purchase price of land at $50,000 per hectare, it would not be unusual for an initial mortgage of 60% of this sum to be raised with a subsequent development loan of perhaps $15,000 being uplifted during the first two years.

The interest costs at 15% would be $6,750 and this would extinguish the $10,000 on 11 hectares at that price or if the land could be purchased at $25,000 per hectare it would be extinguished at less than 2 hectares.

The investor is therefore faced with either a much higher initial capital contribution for purchase or purchasing a smaller share in the syndicate.

Either of these alternatives will reduce the total demand for units.

Cost of Development

The total cost of development will vary considerably on different soil types, weather patterns and individual developers. The development of $50,000 per hectare land by modern methods and with a 60% mortgage on the land at 15% in the Te Puke area would show an IRR of 13% on the following projected cash flows:

Year 1 - 13,250 x.885 = 11,726
Year 2 12,850 x.783 = 10,061
Year 3 - 7,750 x.693 = 5,371
Year 4 7,350 x .613 = 4,506
Year 5 2,250 x .543 = 1,222

Year 6 + 2,250 x .480 = 1,080
Year 7 + 6,750 x .425 = 2,869
Year 8 + 9,750 x .376 = 3,666
Year 9 + 9,750 x .333 = 3,247
Year 10 + 9,750 x 2.267
=22,103

- $32,886 + $32,965
= Plus $79.

Should development be carried out on $25,000 per hectare land with the same results the internal rate of return would be 18.5%.

The temptation to extend the development period over a longer period to keep losses within the prescribed $10,000 would produce the following N.P.V. based on a discount rate of 13% obtained under the most efficient method of current development as follows:

Year 1 - 6,350 x .885 = -5,620
Year 2- 5,550 x.783 =- 4,346
Year 3 - 12,150 x .693 =-8,420
Year 4- 7,150 x .613 =-4,383
Year 5- 7,500 x .543 =-4,073
Year 6- 8,100 x .480 =-3,888
Year 7- 3,750 x .425 =-1,594
Year 8 + 750 x .367 = + 282
Year 9 + 5,250 x .333 = + 1,748
Year 10 + 9,750 x2.267 = 22,103
= - $32,324 = + $24,133

Minus $8,191

Extending the development period to maximise the benefits within the $10,000 limit would be $8,191 more expensive in present terms on land at $50,000 per hectare.

Using an 18.5% discount rate on land costing $25,000 per hectare development would be $4,130 more expensive by extending development by 2 years.

To remain equally profitable development carried out over the extended period would require reductions of 16.2% and 16.5% respectively in the price of land. The purchase price of the land would have to drop to approximately $42,000 and $21,000 respectively.

The alternative to extending the development period is to accept the penalty of the non deductability of certain development costs in the tax year during which they occurred.

Assuming a marginal tax rate of 60c in the $, the N.P.V. at 13% D.R. in the case of a $50,000 hectare of land would be:

Loss - Adjusted loss/Gain Present Value
Year 1 - 13,205- 8,125 @.885- $7,191 -
Year 2 - 12,850- 7,125 @.783- $5,579 -
- Loss $12,770
Year 3- 7,750- 5,625 @.693- $3,898 +
Year 4- 7,350- 6,625 @.613- $4,061 +
Year 5- 2,250- 3,000 @.543- $1,629 +
- Gain $9,588

Total Loss $3,182.

This loss of $3,182 is substantially less than adopting an extended development period where the N.P.V. of the additional cost is $8,191. The loss however of $3,182 above increases to $17,588 where the area of land increases by .5 hectares to 1.5 hectares.

The effect of the $10,000 maximum tax deduction increases the cost of development on increasing areas as the following summary illustrates:

$50,000 per Ha Land

	1 Ha	1.5 Ha
Present Value	$50,000	$75,000
NPV $10,000 tax limit	$3,182	$17,588
Adjusted Value of Land	$46,818	$57,412
% Reduction in Value	6.36%	23.45%

$25,000 per Ha Land

	1Ha	1.5 Ha
Present Value	$25,000	$37,500
NPV of $10,000 tax limit	$663	$9,282
Adjusted Value of Land	$24,337	$28,218
% Reduction in Value	2.65%	24.75%

Cost Inflation

All previous calculations have been carried out in present terms and have disregarded inlfation effects with the $10,000 remaining constant. Without going into detail future inflation in costs without inflation in prices is going to increase still further the cost of development in future money terms.

The Interest and Depreciation Write Back

Historically the investor had a minimum time horizon of 5 years without the major worry of being taxed on the profits realised from the sale of his land. The new legislation providing for the recovery of previously deducted interest and depreciation for a period of up to 10 years will probably have the effect of "locking in" people developing and creating a minimum time horizon of 10 years.

An investor has to have confidence in his ability to see this extended period through both technically and financially.

Based on present preferred interest rates, development of a $50,000 hectare unit on normal lending margins would accrue interest of approximately $30,000 in the first 5 years and a further $27,000 over the next 4 years.

The accumulation of this interest occurs at a compound rate of 9-10% per annum and this must be viewed within the context of the historical inflation rate of land and the personal tax rate of the investor.

The Valuation Dept.

(a) Farmland Price Index showed a compounding increase between 1972/1977 of 21.32% and 1977/1982 of 24.43%.

(b) Housing Price Index showed a compounding increase between 1972/1977 of 16.12% and 1977/1982 of 12.93%.

These historic increases will have to be reviewed in the light of the recovery of 9-10% pre-tax in the short term and may not necessarily appeal to many investors.

Movement in Demand

Accepting that the effect of the legislation may not affect greatly (all other things being equal) the overall demand for horticultural land (other than to businessmen) and that it is unlikely to have a significant effect on the economics of production and long term ownership this demand is likely to be sustained within the 1982 annual level of 200-250 sales annually.

The effect on the approximate 40% of total activity attributable to businessmen is likely to be affected by (as I see it prophetically)

(a) The $10,000 tax deduction limit increasing the number of potential members of each syndicate by about 401%.

(b) A decrease in the total numbers of people interested in syndication because of the 10 year time horizon for deduction of interest and depreciation - this could produce a reduction of perhaps 20%.

(c) A loss of confidence in political attitudes to non working farm ownership - this could produce a reduction of perhaps 10%.

(d) A reluctance because of $10,000 limit on development write off and consequent reluctance to meet the present market - this could produce a reduction of perhaps 15%.

It appears to me that once again all other things being equal there could be a decrease in the overall demand for horticultural land in the Bay of Plenty of 30/35% of which about 10-15% would only consider entering the market at a price reduction in real terms of about 15%.

Movement in Supply

The supply of economic units is rather inelastic and in fact the supply of developed horticultural units is likely to increase significantly in the short run - the demand may well however increase as this market is not affected a great deal by the legislation. It may well be improved due to changes of a lower level of confidence in livestock farming.

The supply of undeveloped units is very elastic as they are normally created by the transfer from either other horticultural use or from the pool of dairy and other arable farm units.

I would expect a short run over supply of undeveloped land with there being an overall drop in prices and an erratic sales pattern of perhaps 10'% either side of an average 15%0 reduction in real terms.

I would expect that by the 1984/85 selling season supply and demand for undeveloped land would be in reasonable equilibrium with prices marginally above the monetary prices existing in the 1982/3 year.

If I really knew the answer I would of course be a very wealthy man and I presume too busy making more money to have the time to prepare this paper. ,

The Economic Effects

Developed Units

The price of developed kiwifruit orchards is likely to suffer from a short term reduction in price due to a tendency toward over supply. The medium term prospects are such that there will most likely be increased confidence due to the slowing down in the rate of increase in export tonnages. Long term prospects are likely to return to a "real" price somewhere between the short and medium term variants.

Undeveloped Units

There is likely to be a significant (perhaps 15%) decrease in the short term price of undeveloped land which is likely to firm somewhat in the medium term as the increased plantings of the late '70s provide more existing orchardists with the funds for expansion. This expansion is likely to be governed more by confidence in the future rather than tax benefits.

National Economy

If one makes the logical assumption that there will be an 85% reduction in businessman sales activity and this being confirmed generally to undeveloped land there will be a reduction in future kiwifruit plantings.

The projected future plantings as estimated by the M.A.F. in April 1982 and contained in the 1982 Annual Report of the N.Z. Kiwifruit Authority was 6,490 hectares for the 3 years 1983-5 inclusive. If two thirds of these new plantings occurred on land which changed hands a reduction of 40% in these plantings due to the absence of businessman activity would amount to 1,731 hectares and result in a reduction of the total N.Z. area in 1985 from 17,037 to 15,306 hectares or a reduction of about 10%.

This would have a flow-on effect into the 1990 projected N.Z. total production of an estimated 71.74m trays leading to a total of 64-65m trays or a reduction of about 7m export trays annually.

A reduction of 7m export trays will lead to a reduction in the national CIF return of between $80-$100,000,000 in 1990, this loss increasing annually at a rate of $30-$35,000,000 thereafter.

Conclusion

If the political objectives of the legislation were to . .

(a) Remove investment of urban funds into kiwifruit development.

(b) Create a self perpetuating monopoly of existing land owners in kiwifruit development.

(c) Entrench the operational development within an essentially wealthy rural land owning group.

(d) Reduce the rate of increase of kiwifruit exports

the objectives are likely to be achieved successfully.

Acknowledgements

I wish to acknowledge the basis of my statistical information which has been obtained from

(a) Valuation Dept. Research Papers 81/2, 81/4, 82/2, 82/3, 82/4 and unpublished material for the period ending December 1982.

(b) Fifth Annual Report N.Z. Kiwifruit Authority dated........._ .... 18 April 1983.

Only Selected Questions and Answers have been printed.

"The Influence of Taxation on Property Investment"

Q. Cave

Could you tell us what you think is the effect of the legislation on existing horticultural businesses reinvesting?

A. - Frizzell

My view on this one, of course, is that if the existing Owners dispose of various income, the ground rules for them have not really changed too much. In other words if I was in the situation of having to invest and develop, my advice would be an existing farm to carry on the same business. Therefore, a $10,000 limit would not apply. I see the major limitation is surplus capital and confidence in the future of existing operations.

Q. - Armstrong

Young farmers have been able to establish themselves by working their way through small properties or sharemilking, etc. but how do you see the new legislation affecting their opportunities?

A. McCulloch

I would think it would detrimentally affect their development. Firstly there is going to be less opportunities to act in a management position. Secondly, the legislation has, I understand, had greater effects on young farmers presently hoping to get into their own or larger units.

Q. Laing

I would like Mr McCulloch to comment on taxation in business. This is forcing a lot of people to leave the Department.

A. McCulloch

I think that the Department's attitude since current legislation has been introduced is becoming increasingly difficult.
I think in Southland the Department's attitudes are certainly becoming harder than they were in the past and I do not think that there is any particular limit.

"A Professional's Role in Today's Society"

by J. Husband, Artist, Author and Commentator

To greet an audience with a hearty "Good Morning" prior to delivering an address of such profound importance and intellectual insight, as I am about to do is almost as bizarre as getting out of bed early enough to get here ... !

I don't even speak to my wife at this hour of the morning let alone a room full of conference delegates - waiting expectantly to be informed . . . I have my schoomaster friend Michael Decker to thank for this, and I am busy devising suitable retribution such as having him locked in a broom cupboard for a weekend with Merv Wellington or something even worse if I can think of it .. .

Compared to your most impressive line up of speakers, my list of qualifications and activities seem rather meagre but as a Professional Artist I have a few distinct advantages which I will explain . . . one is that being the least academic person in the room allows me to be simplistic, uninformed, vulgar and at time irreverent. All of which I promise I will be during this mercifully short address . .

From time to time I will be observed looking down at a pile of notes. I apologise for this because I generally speak without them but I thought - among such an august group of people - like the politician, I may be "quoted out of context" which is generally an excuse for saying something incredibly stupid which they wished they hadn't said.

If I am lucky enough to be quoted at all I would like my mistakes to be acurately reported...

As I mentioned, there are advantages in being a solo Professional - particularly an Artist - because as we are fairly thin on the ground we have not become institutionalised or even worse, incorporated into a society or guild which then becomes weighed down with rules, regulations, aims and objects . . .

I do admit that most professions need such structures to keep their members in check but I am glad that we are outside of it and can stand far enough back to see how it works and if indeed it does . . . but more of that later.

Another plus in the life style of the Artist is that we spend most of our working life alone ... If you are a gregarious person you can seek out and enjoy all manner of people ... and then when you have had enough you may scurry away for another week or so of solitude.

Meanwhile I will indulge at your expense and explain my work style and my obligations as an Artist in society.

The word Professional in regard to an Artist - and I use the term in its widest sense - is a relatively new title, as we have for centuries been regarded as artisans or trades people. In Michelangelo's day, the aspiring Artist was indentured, or as we know it today ... apprenticed to a master and thereby eventually qualifying.

The Artist who supports himself entirely by his craft really does not have much option but to present consistently good work - because he depends on continual exposure and good public relations for his survival - in short, a continual ego trip .. .

From time to time you will hear of the Artist who steadfastly refuses to exhibit in the conventional sense for fear of compromising his ideals - well you can bet your socks that he has a teaching job or the artistic equivalent of S.M.P.'s one of the Queen Elizabeth II Arts Council grants.

The average working Artist is very average! Not the rather extravagant camp image you see in films or read about in books and we all like to regard ourselves as normal.

The fact that I bit the dog this morning and anesthetised the kids so my wife could service her motor cycle - without interruption - in the living room need not imply that we are in any way different to you people out there .. .

So much for the confessions!

The most important time in my painting career was the day I crossed that invisible threshold from the part time or amateur painter to the ranks of the professional. My work did not change or improve immediately - but - the critic's benevolent and mostly disinterested opinions suddenly became super critical and deeply analytical because now I was responsible to the public for everything I did - simply because convention had laid the mantle of "The Professional" on my shoulders . . .

I learned very quickly the art of survival in the world of full time painting in a number of ways . .

Early on I was approached by Journalist F. W. G. Miller to submit a drawing to which he would attach a story for the Saturday feature of the Southland Times. The Editor was pretty uninterested but agreed to a sixth month pilot. Fourteen years later we are still contributing. The things I learned from that one commission was that the feature depended on the public support for its continuance and that whatever I drew and wrote about I had to be answerable to . . . because every week since its beginning someone has written or phoned to compliment or criticize - it's like being on show every week or your life . .

My first commission to illustrate a book for a major New Zealand publisher was a sharp lesson for the new professional . . . After travelling to Wellington and displaying my work to the Illustrations Editor and having the temerity to make a few suggestions I was told "that the ifrm (and I quote) was not a showcase for

Artists but was there to sell bloody books ..."

Since then I have been involved in radio comment and exhibiting in Australia and the United States of America where I found that to present yourself or your work any other way but professionally is the quickest way to disaster .. .

So as far as I am concerned personally - I am very aware of the place of a professional in today's society . . . But more importantly what they contribute to their community outside of their own work sphere.

When I am asked to speak on a subject other than in my field of endeavour - I generally refer - with eager anticipation - to any one of my dictionaries for a definition. My love of the English language and dictionaries was inherited from my father who not only referred to his collection but read them like books.

Under professional the dictionary listed such things - and I quote - Politician - "One who makes a trade of politics" closely followed by Golfer "Performing for monetary reward . ." which of course reminds one of the `Oldest Professions' and a story I must relate before assaulting your senses with my views of the other traditional professions . . .

"It concerned the wedding of the local single sculls champion in a small English church within sound of the Bells of Bow .. .

As the happy couple emerged from the church they were confronted with an archway of oars . . . looking on was a mum and her small son who was heard to remark "Cor mum - look at all them oars". To which she replied, while cuffing him over the earhole "Shut up ya little perisher - them ain't oars, thems bridesmaids!"

So much for the vulgarity ...

The people we once associated with the professions such as Doctors, Dentists, Architects, Lawyers, Valuers and the like are now joined by a new breed of super sportsmen who are continually on public show and are soon reminded if they don't perform up to standard ...

Sadly the traditional professions do not always perform up to standard and their image and their lack of participation in public affairs often leave a lot to be desired ...

When you consider how much trust Mr and Mrs Average put in their Lawyer, Doctor, Dentist or local Headmaster it saddens me that a percentage of these professionals adopt a rather patronising attitude if they are challenged by their clients by giving them the impression that as they have no knowledge of the particular subject then they certainly have no right to an opinion.

This over the years has led to a mistrust of the professions, simply because the client has been treated, not as a person but as a shy, sometimes stupid client whose affairs they must manage because the law states it.

The professional jargon, either spoken or written is another stumbling block. Take the case of the legal profession - the moves afoot now to attempt to simplify this medieval mumbo-jumbo which is completely meaningless to the average person, is certainly a step in the right direction.

Your local General Practioner is another who comes in for a share of criticism, and some of it quite justified.

We all know that he has to suffer his share of hypochondriacs but there still seems to be too many cases, particularly among women where a rather disinterested doctor pats the obviously distraught young mother of three on the head, gives her the mandatory valium prescription and tells her to pull herself together .. .

Now - as the house call is now almost a thing of the past, this doctor has no idea of the environment from which this distressed soul has emerged . .

I was amazed as I listened the other day to a radio interview with one Dr. Peter Anyon who is campaigning to get more access to the New Zealand Medical Council's affairs for its members. Some of the points he was attempting to clarify were `the standard of medical education required by the council.' The access to cases of disciplinary action and the discipline meted out by the Council to the offenders. No names were required, only details of the misdemeanor and penalty were asked for. He was informed that the Council was not obliged to disclose any of this information.

It is only recently that a set of accounts were presented to the members of the profession. As he said if we in the profession don't know what's going on, how on earth can the public know enough to have faith in us?

It was also interesting to hear that ethics is a voluntary subject for a medical student. This seems to me to be a most unprofessional state of affairs.

If these remarks appear to be slanted more towards the professional who does not care too much about his image it is because I think the professions are a noble calling and that they need to be protected from those few selfish elitists .

Those who are born with enough inate ability and privilege to succeed through the academic and social demands of entry into a profession must have obligations to do and be seen to do his very best.

I have taken the first three letters of the word professional P. R. O. to illustrate what I think are the obligations of this group of people.

P. for participation in the corporate advancement of the profession not just to feed off its status and privileges. Participation in the community at large, not isolated away from it - serving it as a parasite.

R. for responsibility . . . one of the greatest responsibilities of any profession is to be accountable to the public who are served by the individuals in their profession.

For example every profession must have a code of ethics which determines the behaviour of its members. When a member errs, he or she must be disciplined by members of the society, and any clients disadvantaged by the erroneous behaviour should be supported by other members of the profession. Too often in New Zealand this is not seen to happen.

Professional associations appear to issue rather bland excuses for misconduct from behind closed doors and provide no compensation for those hurt. That is unprofessional!

0. stands for obligations - obligations to provide more than just professional services.

Many professionals in New Zealand communities, especially the larger urban areas, enjoy the advantages of being a professional, for example - the wealth status and respect, BUT does not contribute any more than his own particular skills and services. They cosset themselves in exclusive suburbs, in ten acre rural retreats and show loyalty to little more than their `bridge four' and the Club ...

If these men and women are capable to becoming professionals and are supported by their communities and pride themselves on having a genuine professional attitude then they must perceive an obligation to involve themselves outside the boundaries of their profession by offering themselves for election .. .

To Local Body Government, in interest groups such as art, sport, the environment, social work, advice to groups in need such as Citizens' Advice Bureau, Budget Advisory Service, Vocational Guidance, Youth Groups and School Associations . . .

The services of those professions involved in ifnance, property and business matters, Accountants, Valuers, Lawyers and Architects are in much greater need than their strictly business clientele would reflect.

In other words, those who don't or can't consult these people because they don't know how to, are too scared of them or can't afford them, need their help more than ever. A true professional would find some time each week to make that help and advice available .. .

On a local level our own City Council does not have an abundance of professions in office. No Lawyers, no Architects, no Valuers and only one Doctor.

Admittedly - local bodies have these people to call on - but what a lot of time and effort could be saved on the debating floor if a snap legal or architectural answer is needed and the problem is solved there and then.

Unfortunately - in my opinion - local body politics are full of well meaning and hard working amateurs who are continually being criticised by these very professionals who should be standing for office.

National politics today has its fair share of traditional professionals, the emphasis being on the legal side closely followed by School Teachers and of course Accountants - one in particular immediately springs to mind.

But look at some of the principal Cabinet posts . . . a Farmer, a Motellier and a Contractor. These appointments do seem to confuse the issue.

One profession which does tend to avoid political office of any type are members of the clergy - "Your friendly neighbourhood man of God" - perhaps the present day system could do with another angry young man driving out the money lenders from the industrial, commercial and political temples. But perhaps divine intervention into politics is a forlorn hope.

Finally I would like to sum up the role of the professional in society by looking again at what a professional is and to quote some authorities on the subject.

Jean Herbison in defining `The traditional characteristics of professionalism' says . . .

The ideal of service in which it is acknowledged that the expertise of the professional is for the use and benefit of others .. .

The possession of a body of expert knowledge which clearly defines the role in which the professional works . . .

The expectation of autonomy which allows an occupational group the right to judge its own competence. But with this expectation comes the responsibility of ensuring that if this competence is challenged from outside it must be seen to judge itself fairly and not behind locked doors .

How do we maintain professional standards?

First we must constantly appraise our attitudes and methods in light of changing technology and also take into consideration the changing attitudes of people . . .

We must also ensure that the intellectual education of our members is maintained at the highest level possible thereby helping to maintain the services we offer.

And so I sum up a professional as:

* Seen by the public as a professional because of the quality of his work and his attitude to it.
* Has gained a professional, usually graduate qualification via tertiary education.
* Provides a skilled service with integrity.
* Accepts the ethics and disciplines of his profession.
* Is prepared to do more than a nine to five, ifve-day week for his professional clients and for the greater community in which he lives.
* And always remembers that it is the person inside the professional which holds the key to his success . . .

Open Forum the Profession in the Eighties

by G. J. Horsley, A.N.Z.I.V., A.C.I. Arb., M.P.M.I.

When I was asked to participate in this open forum it was said that I should be controversial and deviate from supporting the establishment. However, over the last month or so, I have learnt that those with whom I share the task of introducing this open forum are well versed in the why's and wherefore's of valuers' ways and indeed there is every likelihood it is they who will be controversial and as representatives of our clients they may even be "knockers" of the profession and much that we hold dear.

Somewhat unfortunately then, for I would have much preferred the right of reply on your behalf, it is my task to open the batting order but like Bruce Edgar I intend to build the foundations of a good innings so that I might still be here at the end of the session whereas those who are a little more flashy (controversial) might come and go and possibly be quickly forgotten.

In looking to the profession in the eighties it would be typical of me as a valuer to look into the past, search for the historical evidence and on the strength of that evidence and the trends now evident forecast, albeit cautiously, my views on the profession in the eighties.

Originally I did not fully appreciate the scope of the topic. Indeed, I first thought of waving the lfag or Institute tie and providing you with a resume of your Council's achievements over the last decade and the directions it is now taking as it enters the eighties. You are all very much smaller than the conglomerate of Council and divorced from the wider influences of the Institute so that my attention might better be directed towards each of you as individual valuers. Indeed, the forum might better have been headed "The Valuer in the Eighties". In looking at each of you as valuers and forecasting trends or happenings which may affect you during the eighties one cannot ignore both recent and proposed directions of your council.

Over the last few years maior policy decisions of Council have influenced each and every one of us in a number of different ways. In fact I would go so far as to say that steps taken over the last few years have placed valuers clearly at the head of the land based professions.

It was only in 1976 at Gisborne that a seminar was first held in conjunction with an Annual General Meeting of the Institute and in 1977 your council first resolved that the ultimate qualification for entry into the profession should be of university degree standard. Our advancement in the field of education has been considerable and has seen the emergence into our offices of degree qualified valuers with little or no practical experience, a vast difference to the student valuer who previously undertook his practical experience at the same time as he sat his theory examinations.

Our standing as a profession is now such that we have members who sit regularly alongside the judiciary, appear as committee members on tribunals and hearings, are directors of public companies, and, for better or worse, members of parliament and elected members of council and local authorities around the country.

The expertise of valuers and the type of work undertaken now covers a wider spectrum than ever in the past and much of the credit for this improved image of the valuer and his profession must lie with the council of this Institute. It is the council who have been responsible for changes in the education arena, the development of the statistical bureau, and the introduction of the Microfiche sales system.

The knowledge that our sales system is likely to be placed upon a computer in the not too distant future with terminals available to individual offices has been an influencing factor in the direction the Institute and the profession is about to take. There is no doubt in my mind that new technology in the form of word processors, computers, etc., is going to be one of the most influencing factors on valuers in the eighties.

Turning now to consider the profession of the valuer in the eighties there is before the House a single piece of legislation known as the Competition Bill which, should it be passed through all its stages in its present format, will be the single most influencing factor on valuers in the immediate future. There is every possibility that this Bill will be passed in its present format and its effect on professional people will be to do away entirely with scale fees as we know them today, and permit advertising by individual members, previously the sole prerogative of the governing body.

So how are these various factors going to influence you as a valuer in the eighties?

In my opinion you will see a marked move towards national practices in much the same way as the accountancy profession has moved over recent years. The larger practice will be able to offer a greater range of specialist valuers, a consistency in reporting to national and international clients and their financial resources will enable them to capitalise on the advances in new technology which, in the initial stages of development, will be capital intensive as regards costs to the practising valuer. The demand for a consistency in reporting and a single point of contact is already a requirement of a number of large New Zealand companies who, as clients, are demanding this form of service particularly since the advent of asset valuations and revaluations coupled with CCA accounting principles.

I believe that, like the accountancy profession, we may also see the advent of internationally linked practices but against this happening in New Zealand is that most of the larger valuation practices around the world are real estate based and of course that is not necessarily the case in

New Zealand. I feel sure, however, that international links will be established and indeed, in my own practice an increasing proportion of our gross fees are now derived from instructions generated from overseas. Also influencing the development of national partnerships is the large number of valuation assignments which are being offered to practices on a "best price" basis and with the introduction of the Competition Bill I can see tendering for work in the initial years as becoming common practice. A word of caution here would be to not under estimate the content of a particular assignment and thereby leave yourself in a situation where your standard of reporting or your profitability or both suffer to the detriment of you and your client.

At the opposite end of the scale I can see that we will retain our small sole or two man practitioner practices but I can also see that their valuation tasks will become increasingly more tied to the mortgage market in providing reports to lenders probably on the basis of a fee something less than our present scale and even more likely to be on a preprinted form as is presently the case for example with some insurance companies and building societies.

New avenues also lie open to the valuer in the 1980's. There is an increasing demand for consultancy services by valuers. I believe that for too long now valuers have jealously guarded their experience treating it as stock in trade and only providing it to clients in the form of a written valuation report. There are many clients who, in the initial stages of investigations into property purchase or disposal, require access only to the experience of the valuer as assistance in formulating their first opinions.

To support the valuer in his activities over the 1980's the Institute has taken a significant step forward in the employment of an executive officer. I am confident that his influence is going to be felt right throughout the profession within the next 2 to 3 years. However, as individual valuers we too need to support seminars on continuing education, provide members who have sufficient experience to undertake research into specialist subjects taking advantage of the study grants available from the Institute. We must also build up a greater awareness of business administration and management coupling to that advances in technology.

Finally we must enhance the ideals of our profession in ensuring that whatever the scale of our task our client reporting and liaison is of the highest possible standard. Every endeavour should be made to enhance our image as valuers in the eyes of our clients and thereby fully justifying the quantum of our reward.

by J. Grieve, LL.B.

I have been asked to speak to you on how I see the Valuation Profession in the 1980s.

I would like to begin with a historical backward glance.

I first commenced practice in Invercargill shortly after World War II at the beginning of 1947. That was a significant year for both me and for the valuation profession.

The Valuers Act setting up the New Zealand Institute of Valuers was passed in 1948.

In 1948 the Institute was a fledgling body. It did not have the same numbers or strength that it has today.

Very few of its members were qualified by examination.

At lot of valuation work was carried out by non-members - the ex-builders and retired farmers who used a wide variety of methods and criteria in establishing the value of the piece of land.

Most valuations were acquired for mortgage purposes. An occasional venturesome land owner would challenge the five yearly government revaluation of his property; Or his executors might raise an objection for estate duty purposes.

But that was about the extent of the call on the valuation profession for its services.

We were living at that time in a fairly stable environment.

Inflation was minimal by today's standards.

There was plenty of mortgage money offering and a lender considered himself fortunate to obtain a rate of 5% on a first mortgage advance.

The result was that a valuation once made became part of a law of the Medes and the Persians and would be relied upon for some considerable time.

We are of course living in a totally different world today.

The Institute has become in every sense a professional body.

Almost all valuations are now carried out by members of your Institute.

Your members are now qualified by extensive studies in all aspects of the law and practice of valuation, by examination and by considerable practical field experience.

The need for these professional skills knowledge and experience will continue into the 1980s.

The economic and social climate in which we all practise - be it in valuation, or in law, or in accountancy is becoming more difficult.

1. There is a constant need to keep abreast of ever increasing and complex legislation, decisions of Courts and Tribunals, and of economic trends.

There is thus a need for continuing education in all of the professions. A qualification once obtained must be regarded only as an entry into a particular profession.

Thereafter there must be a constant awareness that professional knowledge does not *remain static.*

Professional education must continue as long as one remains a member of one's chosen profession.

2. There is a need in today's world for a high degree of professional skill.

The public has become more litigious.

That may be a good thing for some members of our profession whose work takes them into the field of professional negligence. But for the rest of us and for the members of other professions it has become a matter of some concern.

Today the public demands a high degree of professional competence and it is not slow to pounce on the unwary or the negligent. The Courts also have leaned towards extending the scope of professional responsibility and liability.

This tendency is nowhere better illustrated than in the recent case of Yianni v. Edwin Evans and Sons, *a 1981 decision of the High Court in England.*

At the risk of boring you with detail I think the facts are of some interest. Mr and Mrs Yianni wished to buy a house at the price of 15,000.00 pounds. They applied to the Halifax Building Society for a Mortgage. The Building Society engaged the Defendants, a firm of valuers and surveyors to value the property. The Defendants valued the property at 15,000.00 pounds.

The Building Society accepted the report and notified the Yiannis that it was willing to lend them 12,000.00 pounds. It sent them a copy of the Society's booklet on mortgages which in a paragraph headed "Valuation" stated that the Society did not accept responsibility for the condition of the property offered as security, that it did not warrant that the purchase price was reasonable, that the valuer's report was confidential to the Society for its exclusive use, and that if a borrower required a valuation of the property for his own information and protection he should instruct an independent valuer.

The Yiannis went ahead with the purchase. Later subsidence occurred. The cost of repairing the property was assessed at 18,000 pounds. The Yiannis sued Edwin Evans and Sons.

The Court found for the Yiannis the valuation report should have disclosed the defects. Despite the disclaimers in the Building Society's Notices the Defendants Edwin Evans and Sons should have known that result of their valuation would be passed on to the Yiannis who would place reliance upon its correctness in making their decision to buy the house.

This case may surprise and indeed cause some concern to many lending institutions and valuers in New Zealand. After all the Yiannis never even saw the Defendant's valuation.

Nevertheless the Court decided that the valuer owed a duty of care in those circumstances to the Borrowers and it is submitted that given similar facts that decision would be followed in New Zealand.

This case illustrates the increasingly heavy responsibility for his actions that a professional man must accept.

Not only is the degree of professional competence demanded high but also the scope of responsibility is very wide indeed.

In recent years there has been a marked increase in the demand for valuation services.

The factors influencing this demand are perhaps a social commentary of the times in which we live.

There are three influences which I should like to mention.

a. Monetary inflation - There is no real anticipation that inflation will do other than continue. There will therefore be a constant need for revision of valuations. In today's economic climate no valuation which was made earlier than a few mo/ the ago can safely be relied upon. By way *of illustration we have seen the doubling and in some cases tripling of government valuations within the five yearly review period.*

b. Government intervention - Some recent legislation has had a distorting effect upon the market place and thus upon the valuation of property. I cite as an example the Income Tax Amendment Act No. 2 1982 and particularly the so called "claw-back" provisions for interest and development expenditure claimed within a ten year period of sale.

Since that Act became law in late 1982 there has been a stagnation of the market and in some cases a drop in farm prices against the current of inflation.

c. The Matrimonial Property Act - Since this Act was passed in 1976 there has been a considerable demand for valuation work rising out of its provisions. And I suggest that this work will continue to increase into the 1980s.

In short ladies and gentlemen how do I see the valuation profession in the 1980s?

a. I see an increasing demand for valuation services and thus a buoyant market for your skills.

b. I see a need to contain the costs of these services by using efficient means of data recording and processing,

c. I see a need to be aware of the high standards of professional skill required of those who practise your profession in the 1980s.

by Jon Newson, Dip. V.F.M., A.N.Z.I.V.

I am not sure why I have been asked to present a `bobs worth' at the tail end of this most interesting two days of discussion. From the title of `The Profession in the '80s' and matching that up with 16 years in the field, I guess the organisers are looking for a little self analysis.

I was brought up to understand the term `Profession' only referred to a very select group of occupations that were held in high public regard. Doctors, dentists, lawyers, accountants and the like laid claim to that term. In recent years public opinion has changed. Ladies who frequent street corners and even militant primary school teachers all lay claim to the term "Profession', and the public's ranking of occupation importance generally has changed. All this has led to a major cheapening of the use of the term.

Like never before, self interested groups and individuals are banding together in Societies and Institutes. The public really wonder if it is for their interest and the protection of the standard of service required that these groups emerge as they watch frantic lobbying to Government aimed at further protection and selfish advantage. Rules and charge scales are set, so it is a bit of a joke really to hear some expound the virtues of free enterprise from the warmth of their cosy cost plus, scale fee, legislated nook. I see many instances of public bewilderment at these apparent double standards, and the Professions call for quite exorbitant charges for the completion of the simplest of tasks.

From the Chairman's kind introduction you will appreciate that in the course of a year's work, I wear a variety of hats.

With my farmer's hat on, I negotiate to purchase the neighbouring farm. The required Registered Public Valuer's report arrives. It contains three pages of descriptive prose relating to the property and a one line figure called the value which is after all, all I required. This tidy package all done up in a nice folder with a photo of the hayshed looking from the East has a price tag on that makes me snort. Of course it is now the Solicitor's turn to get into the act. For all the form filling carry on called conveyancing there will be a deduction from the proceeds of the loan called scale fee which will make the Valuer appear he is buying a ticket in the front stalls. I shake my head thinking `what a series of totally unproductive expense - I would be better off with that money spent on fertiliser'.

I must now change to my Registered Valuer's hat. The instruction comes through to put a value on the property. You can't blame me for thinking - what a piece of cake. It's really a risk free exercise, quick and easy to complete, and I must charge what my Union tells me to charge. I don't even have to set out how I arrived at my answer, and anyway the loan request is only for a $100,000, the last Government Valuation is $300,000, and the purchase price is $400,000.

I must change again to my Farm Management Consultant's hat. I would have spent some quite considerable time discussing the purchase move with the farmer. I would have prepared estimates of present and future carrying, summarised development opportunities, thoroughly tested its financial viability with a series of budgets, discussed various forms of ownership and ways of ifnancing the deal. The farmer would have been very pleased with the on farm contact, the joint inspections and discussions and the report. He would have been very happy with the fee which would have been a charge out of time at a reasonable hourly rate. Wearing the Farm Consultant hat I too would have been very happy and satisfied that I had given good service and had a happy client.

I believe the call to all Professions in the '80s should be ACCOUNTABILITY. I think it is time to look very closely at the way our country is going. The productive base is diminishing. Unemployment has reach disastrous proportions. The taxation levels are still too savage to encourage rapid reinvestment. The game still must be played to beat the tax man and this leaves in its wake a great deal of unproductive expenditure. We must seek ways to improve and encourage productivity at all levels of activity.

Returning to the valuing profession. I can see that the '80s could offer real opportunities for the development of and improvement of service to clients. The advent of the micro films has been a major step towards improved sales information, but I feel the system is best suited for firms of urban valuers. The sole trader in the rural area like yours truly has but limited use for the service. I would like to see greater details relating to rural sales appearing on the screen. Anything the profession can do to provide up to the minute information and greater detail to its members must be in all our interest if it reduces widely different estimates of value for the same property - a professionally damaging situation.

The Public Service, as major money lenders and farm financiers via the Rural Bank, or valuers via the Valuation Department could well be playing a greater role still in expanding details of sales. I often get the feeling that within our profession that some elements of trust seem often to be missing.

Government Valuers seemed threatened when questioned by those in Public Practice. Public Valuers one to another seem reluctant to freely exchange information. Land salesmen can take on unco-operative stances if they feel a deal might be threatened. Thankfully I am referring to exceptions, but I still see a great need for more details of sales - particularly in the rural area - to be available to valuers.

I feel the '80s should bring with it a widening of services offered by valuers. Members of the Real Estate Institute are running rings around the valuers when it comes to discussions on the property market in general and what is selling and what trends are occurring. Valuers seem to put the shutters up, and unless they can go through with the whole scale fee performance they are reluctant to discuss estimates of value. It is almost time honoured among professions to make the simpliest of tasks complicated and sadly valuers seem no exception.

Electronic data processing will figure prominently in all walks of life in ever increasing quantities in the 80s. Further sophistication of desk top computers, and increasing availability of them will be a key to the expansion of sales data and details. As valuers we must move with this field rather than resist it. I do, however, look at the Accounting field as it relates to farmers, and I see annual books of account produced in the most elaborate fashion - often six months after the action - and fewer and fewer partners spending less and less time with their clients with greatly increased charges. It is hard to imagine the justification, and the decline in personal involvement between the farmer and his accountant does not auger well for strong lasting relationships. We should not try to replace men offering personal service with machines.

In summary Mr Chairman, I see the '80s should demand a call for greater accountability from our profession. We have got to provide good value for money. We must build up trust with our clients, and make them feel they are getting good value for money. Valuers must strive to get even better and consistent sales information back to each other. This will greatly increase the chances of presenting accurate and consistent valuations. We must all be co-operating and sharing our knowledge of sales and events. The Public Service through the Valuation and the Rural Bank have a great store of information that could further be tapped. Valuers should not feel as if they are in competition with each other rather they should be much more co-operative. We must widen the base of our service, and move with the times to take advantage of electronic advances.

When we compare our profession with others, I believe we do quite well. As long as we keep our emphasis on honesty and integrity and aim to improve our accountability, the '80s will treat us well.

by P. A. Butson

Good afternoon, ladies and gentlemen. I'd like to thank you for inviting me to speak to you all today.

You will note that I am the fourth speaker in this panel - I feel a little bit like Elizabeth Taylor's fourth husband - you know you're going to be next and you wonder how you're going to measure up to the other three!

The first point I'd like to make about your profession is that your scale of fees is far too cheap.

In some cases the fee on a hundred-thousand square-foot warehouse leased to a national company does not warrant the fee that can be charged; but neither does the three-shop complex in a run-down part of town: one shop leased for storage; one leased to a fish merchant; and the owner wants you to value the vacant shop with a view to leasing it to a sex-shop proprietor.

The factory will nett you a fairly good fee, based on the amount of work involved, but the sex shop won't.

I feel there should be two types of scale fees - one for the person who you're not likely to do valuation work for again - and a lower one for the property investor who's giving you a steady flow of work, none of it urgent, and always pays you promptly.

Valuers and the Property Developer

How many valuers go down when the property developer goes down? In buoyant times, a valuer can value a property a little too highly, and inflation looks after him. But what about no inflation? Disinflation - what about property coming down in price? The U.S. has had four years of stagnation, and in some cases, property purchased four years ago is worth less today.

Perhaps the eighties will mean that you will be valuing some properties at less than the seventies' valuation figure.

which comes to my next point ...

Fancy Valuations

They only work for a while - don't be fooled into believing that you only get clients by valuing high. You've got a career to think about, and if you're trying to get clients by valuing high, and not succeeding, then don't try to get clients by valuing low - then you haven't got a career to worry about at all.

The first thing a new valuer does is value high. Then after a couple of `faux pas' he values low. My advice is to get to know your client. If he or she is a professional property investor or developer, you must understand how they operate.

Perhaps he always buys `on spec' - titivates, then looks for a buyer. Maybe he's the type who won't buy unless he has a tenant or buyer lined up; or worse, maybe he buys the property after you've valued it (at 20 or 30 per cent less) and sells it without doing anything, at your valuation.

The problem with the property business is that there are a lot of experts - that is, apart from you.

The Lenders

Some will lend up to 80 per cent or more on some properties on a registered valuation. Some say `Oh, our policy is only 70 per cent of a registered valuation or Government valuation, whichever is the lower', or `Our policy is only 70 per cent of what the property's worth, and we reckon it's worth only 80 per cent of the registered valuation, or the amount it's insured for'. Or, `Our policy is we'll lend 70 per cent of what the property's worth, and we reckon it's worth a lot less than you do'.

Then the tenant or buyer who has a brother-in-law who's a builder, and he's built a lot of buildings, and this one isn't worth anything like the buildings he's built!

Then you have the real estate agents who're experts. Some sell by getting the purchaser up, and some sell by getting the vendor down.

Some don't sell, but get sales by covering ground!

Some are one-hit men.

The old story of the willing-seller, willing-buyer sets the value - that's wrong. A willing seller can also be a desperate seller, and a willing buyer can also be a highly leveraged buyer.

Then solicitors and accountants are also experts - sometimes without looking at the property!

All these experts! - so you have to be able to build a clientele of people who will call you for a valuation, not necessarily a written one, so they will know what margins are safe on a particular property and you can charge them for your time and knowledge.

I envisage valuers of the eighties to have all property information on computer, on every property they have valued, and that their time will be based similar to accountants and solicitors, that is, in unit time, so that an eight-hour day is fully chargeable, and you have no down times.

So if you're going to build a clientele of repeat business, get to know your clients. If you get instructions from someone, ask them what they think it's worth. It's very interesting if a solicitor has a sale agreement on his deck, and you ask him what he thinks it's worth, especially if he hasn't seen the property!

I've got a note here to tell you about my "Green Adair" joke. You've all heard of Red Adair? Well, my joke's about Green Adair.

Red Adair of course, is well known for flying around the world, putting out rogue oil fires on drilling rigs. However, two Arabs had a particularly bad fire on an oil drilling well in the Sahara Desert, and they called up Green Adair, who, obviously, lives in Belfast and said, can you help us? Green said, certainly - I want two things. I want an air-strip built by the oil well, and I will also need a million dollars to do the job. They said fine, and Green flew in in his DC 3 painted green with white shamrocks on the wings, and landed on the air-strip. The nose of the DC 3 opened up and Green Adair shot down the ramp in a jeep, dressed in of course a green fire-fighting suit, and shot straight towards the fire, and straight through the middle of it, completely extinguishing the flames. Everyone was completely amazed with this, and rushed forward to ask if they could help. And the ifrst thing that Green said was "yes, does anyone know how to fix the brakes on this damned jeep?"

That joke obviously has absolutely nothing to do with your profession in the eighties; however, many valuers never really get to know their clients. You must know that if you value a property on what a client has told you, and it doesn't turn out to be right, you're in the cart! If, on the other hand, you know that if your client says it will be finished to a certain standard, and that the tenant is sound and he has turned down an offer for the building of such-and-such, you won't be far away in basing your valuation on his information.

Don't be frightened to write in your report what the client has paid for the property, and what he has spent on the property, and efforts should also be mentioned for arranging tenancies.

Don't be frightened to mention what you think the property should stand for mortgage purposes. A lot of lenders aren't governed by the Trustee Act - for instance, a lot of leasehold property, because of the nature of the ground lease, is as good as freehold. Then say so in your report. The trustee limit is only 50 per cent, but I think the property can stand 60 per cent or 70 per cent.

And have some compassion. Don't talk on the telephone to your client about one figure, then send him a valuation in the mail for a lower one.

And don't say you can have the valuation ready on Friday, when you know you can't.

Also, if you know your client, and you know how he buys property, don't be frightened to value it at what it's worth, even if it is substantially more than what has been paid.

Your profession in the eighties, as I see it, should become more of an advisory role to your commercial clients, and your fee will be based on your time and knowledge, and NOT on what the rent is.

It has never made sense to me why all the good valuers in the Government office don't go into private practice. Then all Government valuations would be current, and all property would be sold at Government valuation, and all you private practice people would be on an hourly rate advising clients on how to buy under Government valuation, and sell over Government valuation.

You all must increase your knowledge of what an investor has to do to attract tenants; and what ideas are working for other developers in other areas; what makes a property more saleable; and so on.

Your profession will have to adjust to the fact that, with current legislation, properties may not change hands so readily. So therefore, leasing, rent increases and consulting may become a greater part of your practice's income.

In conclusion, the 1980's for you must include the wide use of electronic technology; the coming together of you all at this Conference should help you all achieve a closer understanding of each other; get to know your clients better; and you are poised to prosper in the years ahead.

Effective Management of Resources in a Professional Practice

by D. Nicolson, Director of Business Development, Otago University

What I intend to do is discuss the key resources that I see in the valuation practice and suggest how they might be managed by comparing two hypothetical approaches.

But first of all what are the resources I see applying to a valuation practice?

This list may be very long, however I have identified five that I consider to be most significant. They are:

* Time
* Skills expertise
* Information/communications
* External inputs
* Market

My example considers two hypothetical practices in the same town, and by coincidence involving members of the same family. It is the Out family. Out senior has been long established in practice with a Mr Down. Out junior is also a registered valuer and has gone into practice with a Mr Flat.

Out junior and Mr Flat have an annual turnover of $200,000 and a net profit before tax of $90,000 - hence the practice name Flat-Out.

Out senior and Mr Down have an annual turnover of $100,000 and a net profit before tax of $25,000 - hence, the practice name Down and Out.

An appraisal of both practices show that they have potentially available the same resources - so why the difference?

We will now look at the approach adopted by both practices to management of their resources, and see whether this explains the difference is financial performance.

RESOURCE 1 - TIME

Partners of both practices have similar time available - 168 hours/week - per partner. FO have consciously thought about the management of time, whereas D & 0 probably don't know what time of day it is.

The performance of any process is constrained by the availability of the limiting factor and because the time available to the partners is probably the most limiting - then this is a resource which should be given most attention.

Specific techniques will be alluded to during this discussion example. However, to keep you interested here are some techniques which FO employ.

* Prime Time

Studies have shown greater peaks and troughs in performance levels of `mind' workers throughout the day compared with manual workers - i.e. most work gets done in small proportion of the day.

Must identify time of peak performance - most people - first two hours of the day.
In this time interruptions should be eliminated as far as possible.

* Concentrate

Studies have shown that one hour concentrated effort = two hours or 10 15 minutes segments.

How - Arrive one hour early for work or have quiet hour.
- Telephonist screens incoming calls, call back.

FO recognise the importance of managing the limited resource of time and the result being that they are able to achieve maximum in the same time compared with D & O.

RESOURCE 2 - SKILLS/EXPERTISE

I will assume that partners of both practices have similar skills and expertise.

FO extended market for expertise by carrying out property management and consultancy for large developers. D & 0 don't believe in that sort of thing.

FO are more aware of current developments in the valuation world through extensive reading of technical magazines. They can accomplish this because they are very selective - scan the table of contents, only read sections of interest, they have learnt the technique of speed reading. D & 0 read Punch cover to cover, and find that they haven't time for anything else.

D & 0 have obtained valuation qualifications and registration, so they feel that they know all the answers. FO by contrast have the qualifications and they are now questioning how to do it better.

Though both have same skills FO achieves more because they apply their knowledge more effectively - to a wider market, and using more efficient techniques.

D & 0 are not making the most of their skills /expertise resource and are certainly not making any effort to improve it.

RESOURCE 3 - INFORMATION AND COMMUNICATIONS

The name of the game for a professional service organisation is access to, and communication of information. FO understand that and D & 0 also understand it, but feel that existing resources are satisfactory.

Let's look at the different approaches of the two organisations.

Valuation Information

FO has computerised its valuation information - when they want to find information on comparable properties they have it at the touch of a button. This significantly reduces the time involvement of the valuer or means that he can achieve greater throughput in the same time period.

D & 0 don't feel that computerisation is worth the cost, so they use paper files and microfiche. As a result, they obtain information over a longer period and are not able to access as much information - hence affecting the quality of their decision. FO attitude by contrast, on paper files, is "If In Doubt, Throw It Out".

Accounting Information

FO employs a computerised accounting system and as a consequence knows its financial position at any time and is able to maintain tight control.

D & 0 by contrast use a hand accounting system and find that waiting for the bank statement at the end of the month is like waiting for an art union ticket and they hope that the number at the bottom doesn't have "OD" beside it.

Letter Writing

FO

- Have incoming mail screened and sorted
- Handle each letter once - action immediately
- Don't write when can phone
- Use dictaphone one hour = five hours longhand. Typist is 1/3 more productive with dictaphone transcribing compared with longhand.
- Use computer for word processing rather than standard paragraphs

D & O

- Read personally through all mail, if reply requires thinking, put in too hard file, bring out later, reply in longhand and type on a standard typewriter.

Telephone

FO know that despite being a useful tool, that the telephone is a potential time waster especially in respect of incoming calls. Therefore, the telephonist has been instructed to screen calls and those which are not urgent are noted and called back when the valuer has the appropriate information. In general, call backs are bunched together especially before lunch or at the end of the day, when people are not so inclined to chat.

FO have radio communications from their cars. And they also utilise an answering service for taking calls outside of normal office hours.

D & 0 by contrast respond to calls of any nature at any time during office hours which has a bad effect on their concentration, and detracts from their performance. Also, they cannot be contacted outside office hours or when they are away from their office which also affects their level of business.

FO employ advanced technology "To keep their finger on the pulse" and maximise return on partners' time. By contrast D & 0 are using a much older technology which is certainly not maximising return on time. Therefore, it is not physically possible for D & 0 to achieve the same level of performance as that achieved by FO.

RESOURCE 4 - EXTERNAL ADVISORS

FO know that excellent results can be obtained by making effective use of external advisors, both paid and unpaid.
A list of these might include acct., banker, solic., district valuer.

ACCT

FO works very closely with acct in developing accounting systems, financial projections, and managing business to minimise tax liabilty.

D & 0 take a box of cheque butts and bank statements to their accountant at the end of the financial year. They wait on ice until he tells them how much tax they owe. They then worry and sweat about how they are going to pay it.

BANKER

FO keep their bank manager closely involved with progress of the partnership, and especially advise well in advance of increased capital requirements.

D & 0 adopt the attitude - let's wait till the pot is dry, put on a nice suit, nice smile, and proceed cap in hand to convince the manager that they are such good fellows really, they should be given some money.

SOLICITOR

FO has made a point of engaging a solicitor who quickly follows up slow payers.

D & 0 have engaged a family friend who always seems to have more pressing things to do than follow up their slow payers.

VALUATION

FO plays squash regularly with the district valuer. Whereas, D & 0 still think of him as that young kid who rode over the garden on his bike several years ago, and have little to do with him.

FO have thought about it, and decided that effective external assistance to the success of their practice, and have secured it as necessary.

D & 0 haven't really thought - which shows up in their results.

RESOURCE 5 - MARKET

FO realise that they must have bodies moving through the practice to take advantage of their organisational efficiencies. They realise that the code of ethics prohibits a marketing strategy which might be adopted by other organisations. Therefore they must show restraint in market development.

D & 0 haven't even thought about the market as a resource because they have always had customers.

IMAGE

FO rent an office close to major banks, solicitors, housing corp. The reception area is tastefully but economically laid out. The VDU on the receptionist desk leads to an air of controlled efficiency.

D & 0 by contrast have an austere old office on the other side of town because it is cheaper.

The desks of FO partners are bare except for the current file. Those of D & 0 partners are stacked high with files and loose papers - providing an unintended visual barrier - but serving to distract the concentration of the partner.

FO's receptionist is friendly and helpful. D & 0 has the same receptionist who started when the two partners started. She is now very abrupt with customers.

Attitude

FO has resolved to adopt an avis attitude - viz. We Try Harder and Faster.

D & 0 feel that as professionals they should only work a 35 hour week and what's not finished now will wait until tomorrow.

Approach to Market Influencers

FO realise that it is only of value having a positive image, if people are aware of you. They make a point therefore of meeting - not canvassing - such key influencers as Housing Corporation analysts, Valuation Department staff, Bankers, Solicitors, Accountants, Architects, Builders. These meetings might be by way of personal discussions or talking to groups.

Also, they join service and sports clubs to make personal contacts.

D & 0 believe this type of activity is unethical and unnecessary.

FO make a positive effort to identify and service the needs of its clients and also to make key influencers aware of the capabilities of valuers.

D & 0 by contrast has yet to realise that its market is a resource, and like other resources it must be positively managed to achieve results.

SUMMARY

This paper then has considered the resources appropriate to a professional valuation practice and the effect of management thereof. These resources include:

* Time
* Skills/Expertise
* Information Communications *
External Advisors
* Market

Of these resources, time is probably the most limiting and therefore partners should give considerable thought to the application of time management principles. Also, they should develop an information/communications source which provides them with up to date information in the minimum time.

Skills and expertise may well be at a similar level through all practices, however the enthusiasm and imagination with which it is employed will have a significant effect on the performance of practices.

Effective use of outside paid and unpaid advisers also has potential for major impact on results.

However, perhaps the resource which deserves the most attention next to time management, is marketing.

It is quite possible that members of the valuation profession do not consider the market to be a resource. You will be aware by the amount of advertising apparent for consumer products that other businesses certainly consider the market to be a major resource and invest in it accordingly.

A rapid glance through your code of ethics however indicates that under existing rules it would be very difficult to develop this resource for the following reasons.

Management of the market resource is dependent on four key principles known as the four Ps - Product, Price, Place (distribution), and Promotion.

Product - At present the product is the only basis for competition between valuers i.e. different response time, different presentation of reports, different historical reputation.

Price - "No member shall work for a fee less than scale"

Distribution - "No member shall pay by com-' mission or otherwise any person who may introduce clients to him"

Promotion - ". . . the Solicitation by such means as personal canvas........... is forbidden"

My comments would be that the code of ethics may in some regards be an anachronism today especially in those items which effect development of the market resource.

If members are concerned about the effect that relaxing it will have on an individual basis then why not alter on a corporate basis.

E.G. Product

Carry out research to see if there are segments of clients who are unaware of benefits of valuation e.g. in my business, I have become very aware that many small businesses are unaware and find difficulty providing adequate security to obtain finance. This is because assets are valued at historical value.

Price

Perhaps the Competition Act will change this anyway so will be out of Institute's hands. Would be of advantage for the Institute to take the initiative and perhaps educate its members regarding pricing. I understand there is talk of a change to hourly rate.

Distribution -

Accountants get a commission for obtaining finance company funds why not a brokerage fee for valuations? It could hardly be expected to influence the valuation, because clients pay the valuer now.

Promotion -

I know very little about valuers and what benefits they could offer me, and I am sure that I am not alone! How about corporate advertising programme to let us know who you are, what you do, and how you can benefit us.

Only selected Questions and Answers have been printed.

"Effective Management of Resources in a Professional Practice"

Q. Barlow

You have touched on a very topical subject for many valuers and that is the projection of the Institute. A lot of members do feel by comparison with other Institutes that we are losing ground badly. I was interested in your comments as far as that goes. What would you consider appropriate vehicles for promotion, would you use brochures, television? Which would be the most cost effective means of doing this?

A. Nicolson

There is nothing quite so effective as a freebee. Okay you've got the press, the newspapers, television and so on, e.g. the Architects made good use of television with their recent programme which would not have cost them a bean. You must all know folk in the media. Get together and decide what you're going to do, what you're going to portray and release that in some kind of special interest or as a special interest topic to the media and I'm sure they'd be more than happy to, take it up. I would adopt a multi-media approach. I would say you could do it for next to nothing.

Q. Barlow

Would you advise the Institute to employ a professional to guide that programme?

A. Nicolson

Yes. There are advertising agencies who are public relation consultants. Now their purpose in life is to portray the kind of story effectively that you are trying to convey. Now it's going to cost a few dollars but I would say it's going to bring in more than it's going to cost.

Q. - Minchin

As a non-member of the profession, what are your views, e.g. on members advertising?

A. Nicolson

I think the major concern would be that someone is going to get a garish big sign in bright red letters three foot high "Fred Nurd Valuer" and that's going to absolutely rubbish your reputation - it's going to spin off on you. I would say you do not have to go from where you are now in one hop to there. Why don't you go the corporate way? Although that may be difficult as Mr Newson said, there may be a body of inertia within the organisation to doing that. You would have to lay down some restrictions on what you can do but they would have to be relaxed beyond what you've got at present.

"Recent Advances in Technology Affecting Valuation Processes"

Q. Lochland

Mr Allan raised an interesting concept of the "hoffice" which is slightly off the technology side of it, but do you see that there will be decentralisation in the office field as a result of computerisation?

A. Allan

Perhaps people need to associate socially with colleagues and others in business and people's need to get away from their home environment are such entrenched attitudes on things that we've got. The trend will be very slow I think to actually de-centralise in the home. Perhaps not 5-10 but 20 years and it will depend on the city or town in which the valuer is located.

Q. McGough

These days in practices there seems to be a growing trend to do valuations 8, 9, 10 years back. Clients wish us to carry out valuations for tax purposes and with the purchase of equipment will this enable us to store information for many years?

A. - Allan

Nothing is impossible and I think data will be held for long periods of time - 100 years, whether the individual retains this in his own practice or the institute holds in a back room, I don't know, but I see no reason why we could not retain it.

Q. - Barlow

Have you any idea what is the cost to receive these facilities?

A. - Allan

The price of equipment will depend on storage capacity but will be in the range of $8-$15,000 which will be a total deal for software and hardware.

Q. - Huntly

What is the cost to the user of the information you are going to supply - do you envisage it being similar to microfiche cost? The retrieval kit you talk of. What is the cost of that?

A. Allan

The price to the individual supplier will be clearly more than the microfiche. The cost is yet to be finalised but around $400-$800. The cost of the package retrieval kit will be highly variable based on number of package sales made. Again package available to valuers at something around $400-$700 per user.

Recent Advances in Technology Affecting Valuation Processes

by K. Allan, A.N.Z.I.V.

It has become fashionable in recent times to include at all sorts of seminars or conventions a session dealing with technology. Manufacturers, employer, union and all manner of service industries and professions are devoting discussion time to how they will be affected by changing technologies and their trade journals, professional magazines and even our daily press are increasingly filled with like articles. There is perhaps only one common thread through all this techno-extravaganza and it's this: advances in technology are happening and will continue to affect almost every facet of our lives whether we like it or not, and perhaps secondly that the sheer inevitability of the onslaught is now being recognised and accepted by most New Zealanders.

You will be interested but not surprised to learn that valuers on the whole have reacted favourably to technology with the interest being shown in the level of enquiry and eagerness for hands-on-hardware quite encouraging. Let me say however in relation to the title of this paper that I am old fashioned enough to believe that the valuation processes might remain unchanged by technology advances.

That familiar process of task identification, assemblage of data, application of methods and reconciliation of value conclusions will endure - but the procedures and aids employed by the valuer are certain to be affected. With that little play on words and exercising the due liberty of any valuer to change his mind, I am inclined to broaden the title to `Current advancements which will affect the valuing profession'.

In a novel but quite calculated move you may recall that `Time' magazine voted the computer, and specifically the microcomputer as 1982 man of the year.

Awarding this coveted title to an inanimate object duly recognised the profound influence that computers had on mankind in the past year. At the very heart of this revolution is the silicon chip - that amazing microscopic board containing the integrated circuitry which gives the computing power previously possible only in large scale and expensive computers.

Further advances in chip design methods, coupled with the explosion in volumes manufactured have and will continue to result in unprecedented cost reductions. This reduction in cost will lead to the penetration of markets and new applications never previously envisaged. The principal beneficiaries of this explosion will be at home and in the office. The small business sector is rapidly gaining a share of the benefits not previously available to them and most valuers should be able to cost justify some investment in systems and hardware. World sales of microcomputers have been doubling every year since about 1979 and will continue to do so for the next 3-5 years. Before discussing specific applications for valuers let us examine other moves in today's technology.

Over the past few years the trends have been for smaller, faster, more powerful and more `friendly' computers with a significant reduction in cost per unit of processing. We are now seeing however, a pronounced coming together of what are currently viewed as separate technologies and hitherto separate business operations - communications and computers. The distinction between the communications industry and the so-called data processing industry will disappear and result in a whole exotic range of products and services now available through normal consumer buying processes, i.e. at the retail level.

Such a development is quite logical when one considers that the elements of a system are here already - the terminals being keyboards, video screens and printers with the links between those devices in the form of phone lines, cable television networks and airwaves. These communication roadways are capable of carrying much more traffic than they are now subjected to and the most recent advances in the form of fibre optic telephone cables are positively amazing.

A single glass-fibre using an infra-red wavelength can carry the equivalent of over 1900 telephone calls each of which now requires a separate copper-wire circuit. A doubling or trebling of that capacity using multiple wavelengths are under development. The existing telephone services could be used if New Zealand goes for one or other of the video data systems. You will have seen and heard about these communication forms (Teletext, Viewdate, Prestel etc.) which can bring volumes of assorted data into every home and office television screen - data as diverse as transport timetables, weather forecasts, shopping guides, recipes, share market reports, news and newspapers, TAB schedules, price lists and so on. In addition to `viewing' data, users will be able to interact through their terminals - placing bets, buying shares, booking travel, etc. In a recent British innovation a Building Society has enabled subscribers to perform banking actions, payment of various accounts and other services. The terminals used on these systems are being manufactured in such hugh numbers that they are offered at extremely low purchase or rental cost with the subscriber paying to be a user on the network. In France, the Teletel system is hooking up new terminals at the rate of 20,000 per month - at the end of this year some 200,000 units will be in place and three years after some 3 million terminals will be operable.

In the future, microwave and other satellite devices could be employed to flash data from library to reader. The growth of networks will put pressure on the mail services as correspondents, including valuer and client, transmit instructions and reports electronically; document facsimile transmission will be commonplace, interrogation of reference libraries both locally and internationally can be accomplished through the humble home equipment. Larger, flat video colour screens are here now, screens that can be `divided' into four different pictures. "Picturephone" services are no longer in the realm of science fiction, teleconferencing and other face to face audio visuals will be commonplace. Voice controlled electronics are in developmental stages.

All of these developments utilize communication systems which linked to the user's terminal will give way to what is being hailed as the Information Age. Subject to security, the public will have access to information banks or repositories enabling them to be better educated, better informed and clearly more discriminating in their demand for goods and services. What does all this mean for the valuer? will he even retain his position as the recognised consultant-adviser on valuation and land economy matters?

Computers have already been programmed to aid the physician in the diagnostic process and we have witnessed the development and sale of a do-it-yourself divorce kit and a do-it-yourself conveyancing kit. There seems no practical reason why at least some areas of the valuer's role couldn't be a target for similar treatment. The valuer therefore will need to strive to produce a standard of professional excellence in his work, backed by well researched and authoritative analysis presented in a speedy but professional manner at an affordable and competitive price. To do this he will require links to data sources (economic information, sales data, cost information) the building of in-house supplementary records, the ability to search and retrieve title or local authority information and in some instances more computing power to handle certain valuation assignments.

By keeping ahead of the enthusiastic amateurs and providing a service as outlined above the valuing profession will survive, although possible consequential changes might occur, e.g. fewer but larger valuing practices.

Technologies which can or may be adaptable for the valuer or the valuing profession include telepaging devices which operate throughout a whole region; video filming of subject properties (already being used in real estate selling overseas), instruments which measure density or moisture content of materials or minute cameras capable of scanning behind cavity brick walls; electronic drawing boards for converting all manner of plans or sketches into works of art, undertaking the corrections and computing of lfoor areas; the adaption of aerial photography or satellite surveys to pinpoint the location of structures on any parcel of land; holographics - the science of reproducing three dimensional video images of land, buildings, etc.; use of voice-responsive office equipment, e.g. to initiate a search for comparable sales or retrieval of technical or economic statistics; increased use of word processors into most valuer outputs, instant transmission of the report to the client either on line or by facsimile reproduction of paper copies; the use of video cassettes at work or home for education or direct dial-up refresher courses; full valuer accounting and year-to-date performance and productivity reports.

There are more office automation aids and like these mentioned above, some technologies will be cost-justifiable and available much sooner than others. But as you can see, these aids, particularly those which employ some element of communication device will tend to change the work habit of the valuer. The need for a valuer's office to be handy to land record ofifces, postal or banking services, clients, local authority or other information sources will be diminished leading to the `hoffice' (home/office) of the future with consequent overhead savings in commuting, parking, rentals, etc. It would not even be necessary for a typist to be located in the same premises as the valuer since line-fed dictation and instant transmission back of completed reports could operate and are already operating in America.

One development which is currently under study here in New Zealand is for a Government initiated Land Information System (LIS). Most Western countries have or are in the process of developing information bureaus which contain details of ownership, land description, land use and all manner of identifiable data. Each of these known systems has strengths or weaknesses depending on the base data previously held or on the sophistication of technologies used to link the different data components of each property. The New Zealand proposal would be based on cross matching every parcel of land drawing the survey data, land transfers (legal) and economic (valuation) data from each of the three principal government agencies now involved. Overlaid on this giant data base would be physical information - soils, vegetation, contour, etc. together with building and infrastructural data (cables, pipes, services). Access to the information on one parcel or property (group of parcels) would be by way of a computer terminal with the enquirer simply identi. fying the name of the owner or street address, or legal description or similar. The New Zealand project is an ambitious one and seeks to cash in on the very latest technologies overseas including for example, the use of colour graphics. Computer mapping is proceeding and would ultimately enable the terminal operator with the right equipment to produce variable scale maps of a single parcel, property, street or suburb depicting numerous data combinations.

The use of LIS for planning and any number of physical or economic studies is obvious. Compared to like overseas projects the New Zealand proposal is particularly enhanced by the orderly arrangement and very high level of data accuracy and completeness found in the existing government agencies responsible for the present records. If and when LIS becomes a reality that single bureau would provide the valuer with the vast majority of data now used in appraisal work. With the data being kept up-to-date daily by government, local authorities or other agencies LIS would be accessible, obviously at some cost, to valuers, surveyors, engineers, lawyers, planners, or in fact any individual who possessed a terminal and the time to tune in. At this stage a commissioning date and any estimate of cost for LIS cannot be given with any accuracy.

By comparison to comprehensive land information systems outlined above the proposed Institute of Valuers on-line sales package will be a fairly modest project. Nonetheless, it represents a giant leap for mankind from the copied sales lists of two years ago. The system which is to be commissioned would operate on a commercial computer bureau network. Computer disc files holding the latest sales information together with an historic year-to-date file will be accessible via the existing land-line network. Each verified subscriber valuer could tap into the main frame via an acoustic coupler device and following security protocols, could be fed the latest sales data through a standard request programme. Now this proposal would necessitate the individual valuer or practice purchasing a microcomputer or having access to some computing hardware. Once the valuer has secured the data down line a programme can be run to inter-sort the information with his existing file and to selectively roll off into a separate file the more historic or less relevant sales. The whole receiving-updating process should only take a matter of minutes if performed regularly while maximising the available storage with the personally chosen range of data.

Other options on the user's programme might allow the insertion of all valuations performed by the valuer together with the very latest, yet-to-be notified sales and that this data could be retrieved by the operator in the same search for comparable sales routine. It is at this point that the technology begins to pay dividends with the valuer able to select sales by location, street name, category, age, price bracket, date of sale etc. or combinations of these variables. Data could be selectively printed off the system for paper attachments to the particular jobs under action and provision should exist for the valuer to enter personal comments, observations or analysis details against any, sale entry on his file.

The Institute intends to develop a suitable sales retrieval package for use by valuers although those who are already skilled in handling the data may well continue with existing procedures. Part of the package deal would of course include operator manuals.

Looking at other aspects of computers and how they could be harnessed as valuation aids, we find that both overseas and in New Zealand various software packages have been developed for specific valuation tasks.

For example, a programme is available for keeping track of all valuation assignments coming into the office and would be useful in a larger practice for planning job deadlines, and when used with a `clock card' can be programmed to display urgent or predetermined messages on screen. Work done at Massey University, with an impetus from Bob Hargreaves, has seen the development of programmes to determine net rates, to time-adjust sales and another to handle area adjustments when analysing sales.

Contrary to some popular belief regression analysis is not being confined to large organisations with rating and taxation appraised responsibilities. Simple regression analysis has been experimented with in both the rural and urban sectors as long as 15 years ago but is limited by the needs of the individual for computing facilities. I cannot see any reason why the valuer of the near future could not experiment with and develop his own home-grown predictive models particularly if he performs large numbers of valuations in one locality or specialises in one type of property over a wider area.

Use of programmes to determine optimal building forms in a feasibility study are possible, sensitivity analyses to measure for changes in time, yields, interest rates or costs in a project are already being used. Another local product has taken the hypothetical subdivision approach onto an electronic form with consequent savings in the time devoted to this high variable valuation problem. The discounted cash flow approach to income producing properties is made easier and internal rate of return questions are logical applications for computers. Existing programmes such as `Visicalc' and its successor `Supercalc' are ideal for determining income and expenditure forecasts for farm or office block solving questions ranging from debt servicing to the effects of changes in stocking rates.

Adaption of packages to the replacement cost approach are obvious. Insurance and current asset valuations tend to be based on a building cost and multiple system; the meticulous work done by the Institute in keeping modal cost and multiple records over the past 30 years will be fully appreciated.

An American programme has been adapted to determine the replacement cost of homes by asking the valuer/enquirer a whole series of (approximately 80) questions. This can be an extremely helpful way of getting accuracy into costs of new or unusual houses, or to analyse contract prices and a New Zealand version of this would probably find a market. Updating schedules of all types including plant and chattel registers must be easily handled on simple programmes. And finally, some of you will be interested to learn that encouraging work has been done on the bane of many a valuer - analysis and valuation of leasehold interests.

Having a network terminal in the valuer's office will enable the user to access to information from outside sources thus minimising the volumes of data needed to be kept on his domestic system. In addition to obtaining services from his own Institute the valuer should in time, be able to retrieve engineering cost information, economic statistics, financial indicators, case law, agricultural data and so forth from other agencies responsible for specific information. How often have you seen or heard what you believe could be useful base information particularly for unique assignments but can never ifnd or recall the data when needed. With the aid of a suitable `dictionary' the valuer could put himself in touch with all the statistical or published material on any subject before and during the valuation process. Forty years of the `N.Z. Valuer' alone contains a wealth of information.

Judging by the volume and type of articles appearing in overseas appraisal magazines, the Americans would appear to have made the greatest inroads with computers into valuation practice. Not only is there a healthy academic input from the university level but many practitioners are obviously using systems and hardware in their daily routines especially more sophisticated analysis or computations. The cost of equipment is substantially lower than in New Zealand and some data bureaus operate on the basis of giving credits for information contributed to offset the demand for information by the same user. Time-sharing on larger machines and use of outside information sources were prevalent in the 1978-1981 era but since this time the trend has been for smaller in-house microcomputers still linkable to external sources.

The New Zealand development is likely to skip the leased-time-on-major computer stage and come in with the new generation versatile micros. A growing trend in the States is for the sale or exchange among valuers of software programmes, cost-sharing the commissioning of new packages and there is clearly a high degree of mutual co-operation and joint education.

I mentioned earlier that most valuers were demonstrating a healthy attitude to technology and computers in particular. But reflecting the wider public attitudes to technology, there are two types whose views should be seen with caution. Firstly, there is the overly enthusiastic optimist who believes that the computer will perform and solve every decision needed to be made - speedily, without malfunction and at a bargain basement cost. His disillusionment and frustration, not to mention his unrecoverable sunken cost, could be realised at an early date. The second type is at the other end of the spectrum; he may have an inferiority complex when the subject of valuers and computers or technology are mentioned in the same sentence. This archtype cannot comprehend or will not concede that any part of the valuer's routine could be impacted by technology or alternatively is not prepared to take technology aboard unless or until he is fully conversant with the mysteries and mechanics of every silicon chip, programme and system.

Take a look at the hundreds of kids twisting the knobs on space-invader machines; I'm willing to bet that 95 percent of them have little idea of the complexity of a silicon chip but what is more important, they neither need to know nor are they concerned about such specialised technology. We all operate telephones, televisions and the like sometimes with only vague ideas of how they actually operate. I think it is important that valuers treat technology and computers with a similar healthy and inquisitive approach learning from that lead given by today's young.

Education in computers can take a number of forms and starting with one becoming conversant with terms, reading articles and talking to existing users. Structured seminars for valuers have commenced. It is a good idea also to take in an office or business equipment exhibition and these are now occuring at more frequent intervals. Treat the microcomputer salesman with the same reserve one would accord to a used car salesman, and don't be overawed by the performance claims of the salespeople.

Some valuers may express total rejection of technological innovation and to those people I offer the following borrowed words, "what is required is not blind opposition to progress but opposition to blind progress. These two matters are quite different things."

In conclusion, let me reiterate what I attempted to propound at the outset: it is not a matter of modifying the valuation process as a result of technological advances and there is little evidence to suggest that the `process' is even under threat from technology. Rather, today's developments should be seen as an exciting challenge to aid the valuer in improvement of his 'procedures', raising the quality of his product and its transmittal to the client.

I believe the valuer will always be responsible for the conclusions reached, values advised and recommendations given in his report; the successful valuer will be the one who can send that report with an assurance of improved quality at a commensurable speed and cost.

Editor's Note:

Developments and further investigation by the Institute has some of the above, and information drawn out in the Question and Answer session which followed.

The Effects of the Tiwai Smelter on Southland

by E. New, M.N.Z.P.I., M.B.A.P.I., A.N.Z.I.M.

History of the Plant

To put the effects of the Smelter upon Southland into context the time scale of its proposal and development is important.

1955:

Conzinc discovered bauxite in north Queensland. Conzinc formed a subsidiary, Aluminium Corporation, which later became Comalco.

1957:

Comalco signed what was known as the `Weipa Agreement' with the Queensland State Government and then agreed:

1. To establish an alumina refinery in Queensland,
2. Establish an aluminium smelter in Queensland or in Australia if feasible.

Comalco needed electric power and it looked at the coal resources in eastern Australia, hydro power in Papua and hydro power in New Zealand. New Zealand was removed from the scene because its price for electricity was too high.

1959:

It was decided that the Papau hydro power would be uneconomic unless other users could be found along with Comalco. Queensland coal could be used at half the cost of hydro power in New Zealand. The Hon. P. N. Holloway, the then Minister of Works, invited Conzinc to investigate the Manapouri/Te Anau Lakes with the idea of developing a hydro electric generating scheme to supply a smelter to be located at Bluff.

1960:

The New Zealand Government granted water rights to Comalco.

1961:

Comalco told the New Zealand Government that they were going to proceed with investigations.

1962:

Comalco told the New Zealand Government that they could not proceed. The New Zealand Government advised Comalco that it would develop the Manapouri project and Comalco surrendered its water rights.

1963:

Heads of agreement were signed between Comalco and the New Zealand Government.

1966:

Comalco sought the New Zealand Government's support to establish a smelter at Bluff. Agreement on power was reached between Comalco and the New Zealand Government. Comalco opened negotiations with various possible participants for the smelter development, including Showa Denko and Sumitomo who eventually became participants, to link the Weipa bauxite, Queensland alumina, and New Zealand power to produce aluminium.

1968:

Heads of agreement were signed between Comalco and the New Zealand Government.

1969:

Construction of the smelter began after Comalco had reached agreement with the Japanese participants. New Zealand Aluminium Smelters Limited was formed.

1971:

The first stage of the smelter at Tiwai was completed and the production of aluminium commenced with an initial capacity of 74,000 tons per year.

1972:

Capacity of the Smelter was increased to 112,000 tons per annum.

1976:

The capacity of the Smelter had increased to 150,000 tons.

1983:

With the completion of Stage 4 the output of the Smelter will be increased to 244,000 tonnes.

It is worth noting that although the original agreement between Comalco and the New Zealand Government provided for all the power for the Smelter to come from the Manapouri Station, under the new agreement reached in 1977, the Government can now supply Comalco from any source whatsoever, although there is preference given to the supply from Manapouri.

The Location of the Smelter

The site at Tiwai was chosen for five main reasons:

1. Adjacent to a naturally formed deep water harbour at Bluff.
2. There was a large area of land suitable for industrial development on the Tiwai Peninsula.
3. Environmental considerations were well suited by climatic conditions on the Peninsula.
4. Infrastructure to support the operations of the smelter were available from Invercargill City.
5. Close proximity to a power source.

National Economy Impact

Before discussing the Southland scene it is worth looking at the benefits of the Smelter from a national viewpoint. I would not attempt this analysis myself but it is worth stating the conclusions of McDonald of the New Zealand Institute of Economic Research in a report published in June 1980.

The McDonald report studied the national economic benefit potential of an expansion of the aluminium smelter (i.e. from 150,000 tonnes per annum to 244,000 tonnes per annum). The fundamental aim of the study was to estimate potential economic benefit to New Zealand from the expansion. The study had a number of subsidiary aims including the provision of additional perspectives for national debate about energy policy options and the implications of increased foreign investment. The analysis set out the project costs and benefits to New Zealand over a 30 year time span.

The costs included all New Zealand resources used by the project, e.g. electricity, labour, plant and machinery, fuel and supplies plus overseas payments that must be made from New Zealand. The benefits were the payments made for the use of New Zealand resources and to reimburse New Zealand for overseas costs, payments to meet indirect and direct tax commitments and dividends to New Zealand shareholders.

The assessment basis used was what is popularly called the `discounted cash flow return in real terms', this is a method recommended by Government for national benefit studies. Government advised that the standard discounted cash flow return which it sets from projects for the nation is 10% in real terms.

The Institute's study of the project produced a comprehensive range of results, result differences depended largely on the range of values used for the supply cost and selling price of national resources, such as electricity and labour, as well as output values such as aluminium price and foreign exchange earnings. The finding was that the project should give a positive net economic benefit to New Zealand. This means that the project was not only expected to earn the recommended 10% on the national resources invested in it, but also that it would generally exceed this criterion by a significant margin, indicating a rate of return on the project of higher than 10%.

Southland Economic Impact

W. A. N. Brown and Associates, Christchurch published a report in 1980 to quantify how investments affect the local region, particularly in terms of regional output, income and employment patterns. The report was prepared before the third potline was constructed.

The sources of regional impact identified in the report were:

1. Construction of the Smelter and its subsequent expansion.
2. The operation of the Smelter.
3. Investment in associated public infrastructure.
4. Investment in further processing of primary aluminium.

The report concentrated on the impacts of items generated by Item 2, although it must be appreciated that the construction of the plant in 1969-76 and more recently the third potline have provided significant regional stimulus.

The regional expenditure by NZAS in 1979 indicated that it spent $71 million in New Zealand which was made up as follows:

	$M
Payments in Southland	64.9
Payments in the rest of New Zealand	6.1
	71.0

Therefore, $64.9 million was injected into the Southland economy, this encompasses payments to manufacturing and service firms in Southland, wholesaleing agencies, the NZED, and wages/salary payments to employees. The regional payments are dominated by electricity ($26 million) and wages/salary ($20.5 million), leaving the local service firms, especially transport and construction, ($6.5 million). The two latter categories have strong local linkages which indicate the flow-on effect from the Smelter's expenditure is significant. It should be remembered that these figures are in 1979 dollar terms.

Local purchases by NZAS during 1980 were $44.4 million which generated a further $7.4 million of sales in the regional economy through the industrial support effect. Spending of all the wage and salary payments associated with these transactions, the consumption induced effect, added a further $51.6 million to output.

For every $1.00 of expenditure by NZAS, regional output (excluding aluminium sales), increases by $2.30. Most of this impact is reflected in increased sales by firms in the wholesale/retail trade sector. Other firms that benefit are in agriculture, food processing, metal products, machinery, construction and business services.

Wage and salary payments by NZAS in 1980 totalled $20.5 million. Income payments by those ifrms who directly service the Smelter would total about $5.9 million and firms in the industrial support category add an additional $1.9 million to household incomes. When all this income is spent (the consumption induced effect) turnover of firms, particularly in the trade and service sector, increases and the income payments resulting from this are estimated at $11.4 million. Total household income payments in Southland therefore reached nearly $40 million because of NZAS operations; or for every $1 of income payment by NZAS an additional .94c of income payment is generated elsewhere in the regional economy. Most of this impact increases income in the wholesale/retail trade sector, transport, business and social services.

Employment level at the Smelter in 1980 was 1,100 persons. The employment multipliers indicate that the added output in firms servicing the Smelter and all associated industries in Southland is such as to support the jobs of a further 800 people. When the turnover of firms associated with household expenditures is also taken into account through the consumption induced effects, a further 1,255 lobs are supported giving a total impact of 3,155. This implies that for every job provided by NZAS almost 2 jobs (1.9) are supported in the Southland economy, mainly in the wholesale/retail trade, service and food processing sectors.

Trends show that over the period 1966-76 Invercargill Urban Area employment figures increased by 23.7% which is significantly above the Southland 10.4% and the South Island's 15.6% trends, and is close to the New Zealand average of 24%. In particular there was significant growth in the manufacturing and service sectors. Two sectors where the NZAS employment impacts may have been felt, trade and services, remained fairly static with marginal increments, the Government, social and community services sectors had a significant growth of *22%* over that period. It is difficult to determine what these employment patterns might have been had the Smelter not been commissioned. In general terms however, employment growth in Invercargill has been significantly above regional and South Island trends and the stimulus provided by the Smelter must be one major reason for this trend.

After the third potline becomes fully operational and production is expanded the workforce of the Smelter will have increased to approximately 1,450 people. Employment effects in the remainder of the economy can be summarised as follows.

Firms directly engaged in supplying goods and services to the Smelter	847 jobs
Firms benefiting from the flow on impacts created by increased business spending	300 jobs
Firms affected by spending of income payments by NZAS employees and other firms connected with NZAS	1,692 jobs
	2,839 jobs

The total employment impact of the NZAS operation is therefore 4,289 jobs, or to put it another way, for every job created in the Smelter just under 2 jobs are supported in the rest of the Southland economy. It is important to distinguish between the new job creation impacts of the Smelter and its job support role. In the long run the NZAS operation would maintain the employment of this number of people in total, in the short run, the impact on new job creation may be slowed since there is surplus capacity in many existing jobs. Significantly the impact of the Smelter is to support the continuation of employment which would in alternative circumstances probably have decreased.

The Brown Report concluded that because of local spending and employment by NZAS, regional output in Southland increased by $103 million (December 1979 prices and excluding the value of aluminium sales), regional income by $39.7 million and the regional job support impact is 3,155 persons. After the third potline becomes fully operational the output impact should increase to $145.7 million, income to $53.5 million and employment impact to nearly 4,300 persons.

One way to explain the impact of NZAS expenditure is that in the year 1982, $117,000 is invested, or spent, in Invercargill every working day of the year as a result of the direct wages bill of NZAS.

Some Other Impacts

Harbour Tonnage

Current Southland Harbour imports tonnes p.a.	852,382
NZAS related imports tonnes p.a.	395,000
NZAS percentage of total imports	46%

Current Southland Harbour exports tonnes p.a.	346,996
NZAS related exports tonnes p.a.	132,793
NZAS percentage of total	38%

Currently NZAS operations account for 44% of the total tonnages handled by the Southland Harbour Board. When fully operational from the third potline, an additional quarter of a million tonnes of aluminium industry material will be handled annually. Given that the projected tonnage to be handled by the Harbour Board will be around 1.7 million tonnes per year, this will mean that the operations of the Smelter will account for 46% of the Southland Harbour Board's operations.

Community Assistance

Since 1970 NZAS has contributed by way of direct financial grants to charitable causes, equipment, donations etc., a total of $130,500 in the Invercargill and surrounding districts. This assistance has been directed to a wide range of organisations in the educational, sporting and cultural ifelds.

Tertiary Scholarships

Since 1975 NZAS has supported a scholarship programme for sons and daughters of Southland residents undertaking a course at University that has some relevance to the operation of the Smelter. A total of 6 scholarships are offered annually, NZAS has invested $50,250 in this scheme, 40 students have benefited from or are currently in receipt of NZAS scholarships. The attraction being that they are in no way bonded to NZAS but receive the added bonus of guaranteed holiday employment, this indirect cost has added a further $73,500 to the 1982 wage bill.

Apprenticeships

The NZAS apprentice scheme has been in operation since 1972 with an initial plant intake of 5 young men. Since then the training scheme has developed to the extent that NZAS now offers facilities and programmes second to none in New Zealand's private industry. In 1982 the apprentice roll stood at 47 and this will increase to 53 this year, offering courses in four disciplines:

- Fitter welder.
- Fitter turner.
- Electrical trades.
- Diesel mechanics.

A major step in the development of apprentices training at Tiwai has been the establishment of a special Apprentice Training School including workshop, lecture room and crib facilities designed to cater for the needs of the first year intake. It allows the maintenance personnel the opportunity to formalise the first 2,000 hours of training in a structured and closely supervised way, by so doing the transition between the school system and the work situation is a gradual one. The apprentice training programme also relies on community support with the trainees being involved in Southland Community College courses.

Housing

Since the start up in 1971 NZCC has built, or purchased (17), a total of 570 houses in Invercargill. In 1982, 200 houses were being built at a total cost of $8.95 million. This brings the total money now contributed directly by NZCC to the housing infrastructure in Invercargill to $16 million and has increased the annual rating intake to the City by $125,000 per year. Another way of expressing it is the current market value of the housing infrastructure provided in Invercargill - approximately $25.6 million. Houses are owned by the New Zealand Construction Company Limited which is a subsidiary of New Zealand Aluminium Smelters Limited.

The houses that are provided are approximately 10% 4 bedroom units and the balance 3 bedroom, they are fully insulated, have solid timber joinery, shower over the bath, thermostatically controlled electric heating in the lounge and the hall. A variety of exterior claddings are used, mostly clay brick, concrete brick or block, with Harveytile or enamel steel roofing. The gardens are laid out and fenced, and a voucher for $50.00 is provided for each first tenant to purchase trees and shrubs.

Under normal circumstances after a year's tenancy the NZAS employee is offered the opportunity to purchase the property. The sale prices are kept as near as possible to market value. The employee can purchase the house directly, or by mortgage, if he wishes second mortgage facility can be provided. It is fair to say that these purchasing methods are rarely used and the majority of NZAS employees purchase by way of a long term sale and purchase agreement.

Interest rates on long term sale and purchases are kept low, by market standards, and commenced in 1971 at 6z% and have now risen to 9% with *a* 2% rebate/penalty depending as to whether the agreements are prior to, or post, the Credit Contracts Act. 100% finance is provided for the purchase, no legal costs are involved, a one time loan repayment insurance premium is advanced. Group insurance schemes are provided, not only for the loan repayment insurance, but also for householders and houseowners insurance. Repayments are by weekly/ fortnightly /monthly period, dependant upon the employee's payroll, over a 30-year period.

If the employee wishes to sell the house within three years then he is required to offer it back to NZCC at a figure that he thinks is its value. This buy-back provision has been useful to both the employees and to NZCC. If the NZCC does not wish to exercise its first right of refusal then the employee is free to put the house on the open market. An assignment provision is available to employees to transfer the house and loan to another NZAS employee.

Internally, monitoring is carried out on pot emission, potroom roof emission, chimney emission, pot hooding efficiency, multicyclone efifciency, atmospheric conditions within the potroom, dust collector emissions, carbon bake furnace emission, cooling water, stormwater, sewage discharges, employee urinary fluoride concentrations and workplace atmosphere.

Externally monitoring consists of the ambient air, forage, animal urine, animal bone, native vegetation, native fauna, water, bird, and fish life. Supplementary monitoring surveys carried out include animal dental inspection and infrared aerial surveys. A weather station has been established to collect data on behalf of the New Zealand Meterological Office and inversion conditions are recorded from three sensors mounted on the main chimney.

NZAS operates the Tiwai Experimental farm in the area of the highest expected fallout, four kilometres downwind of the smelter chimney, over an area of 84 hectares. This farm is managed by the Ministry of Agriculture and Fisheries and NZAS staff under the direction of the Research Committee. The objective of the experiment is to study and identify clinical lfuorosis in farm stock. Results obtained have also confirmed that the effluent levels are less than expected and can be related to the adequacy of the control equipment installed at the smelter.

The occupational health programme at Tiwai has been expanded since the plant's startup. It is expected that this area of activity will expand much more in the future. All new Tiwai employees have always been medically pre-screened to provide background information on their health status. In 1977 a two-year medical examination was introduced which is intended to determine employee health trends. Since 1973 regular audiometric checks have been conducted to determine the hearing characteristics of employees and these have been coupled with a plant wide noise survey by the Environmental Control Group. In the latter part of 1977 NZAS's internal environmental testing programmes were expanded to determine the actual exposure of employees to the various compounds over an eight hour shift; this is determined by the use of sampling equipment which the employee wears.

The provision of housing to the degree provided by the NZCC has, I believe, assisted in stabilising market values and rental costs throughout the city. It will be seen that NZCC does not attempt to house too large a proportion of NZAS employees. By encouraging those that it does house to purchase their homes under favourable terms it assists in the recruitment and stabilisation of labour for the smelter. The employees having come to Invercargill, put down roots. From a community building point of view the NZCC scheme has many advantages over those operated by many companies and Government Departments throughout New Zealand. The real departure in respect to housing was the decision to build the houses in Invercargill City and not in an industrial village close to the smelter.

Environmental

The location of the smelter plays an important role in reducing its environmental impact. It is significant that the Environmental Defence Society, the Royal New Zealand Forest and Bird Society and many other environmental agencies, Government Departments, Quango's and NGOS, have all advised Government that the most suitable place for any aluminium expansion is at Tiwai.

Before construction began at Tiwai the site was fully evaluated with regard to the impact of the smelter emissions on local ecology and the stated objective of NZAS was to establish an operating unit without causing damage to the environment. Some of this work has been reviewed by Stewart 1974, Farrier and Pullen 1973 and NZAS granted a post-graduate research studentship to the University of Otago to permit background fluoride concentrations in the area to be measured. This work was presented in a thesis by Stringer in 1972. Two of the major areas of emphasis in the investigations were the welfare of the Bluff township and the adjacent farming community.

The New Zealand Department of Health established ambient air and forage standards to prevent damage to the surrounding ecology and these standards were and still are rated among the most strict in the world. Following the plant start up, NZAS established highly advanced monitoring procedures to confirm that the standards accepted by the parties would not be exceeded. To do this an Environmental Control Group was established and equipped with a specialised laboratory to provide analytical services with respect to emission. Monitoring forms a very important function of the smelter operations.

The NZAS Smelter's environmental control programme is one of New Zealand's major conservation success stories. It has now been operating since 1971. Time has proved its effectiveness in preventing ecological damage and safeguarding employees' health.

Social

The social effect of an industry such as the NZAS Smelter is possibly the most difficult to assess in any scientific way, but any assessment must be `painted' against a background of development within the Southland region. The region has been through what could be best described as an `industrialisation phase' which lasted over 25 years. The Alliance Freezing Works was one of the first `new' freezing works built in New Zealand and certainly the first `new' works for many years in Southland. This works was quickly followed by the establishment of the Southland Phosphate Company's works at Awarura, the Southland Cement works at Orawia, and the major port development; the Island Harbour at Bluff.

These industrial developments, from the mid to late 1950's onwards, accustomed (if that term can be used), Invercargill to having people of varying nationalities living in the community. For example the French were the major contractors for the construction of the Island Harbour, the Germans were involved in the now defunct Southland Cement Works. `Outsiders' by way of engineers, contractors and labour were brought in for all major projects.

Manapouri was quite some distance from Invercargill, but the city was the base town and although a village was built near Manapouri for the hydro development, many of the personnel had already established themselves and their families in Invercargill. Many other preferred to leave their families in Invercargill and travel to and from either West Arm or Deep Cove. The Manapouri Scheme brought the first influx of Americans with Bechtel Pacific Corporation Limited and Utah Mining and Construction Company.

It was an easy step onwards to the construction of the smelter, Stages 1 and 2 with Kaiser Engineers from the USA taking over the 'American spot' in the district. Many of the contractors and labour from the Manapouri scheme dropped neatly into the construction of the smelter.

A considerable amount of the labour that was used on the construction sites, including the smelter, stayed on as NZAS employees as they had established themselves and their families in Invercargill.

The social impact in so far as Bluff or the rural areas are concerned is negligible, if in fact there is any social impact at all. The major social impact has been in Invercargill because NZAS has elected to integrate its workforce into the city, rather than build a company town. The work force is well distributed around Invercargill, has brought active support and has been well accepted into the cultural, spiritual and recreational life of the city.

It would be foolish to suggest that the smelter work force, and the spin off employees from support facilities had no adverse social effect, but it is fair to state that the adverse social effect per capita is no greater, nor less, than in any other urban community. The stability of the industrial relations at the smelter has contributed to the city's social development in sharp contrast to the freezing industry, where income is over a foreshortened earning period each year, stoppages are frequent and labour is in the main transient.

The effect of the smelter has been positive and beneficial.

"The Effects of Tiwai Smelter Development on Southland"

- Brown

I was interested in how you set the standard of housing maintenance?

A. - New

Reasonable. Prior to the sale of the property to the N.Z.A.S. the inspection is made with the tenant and then there is a firm agreement made as to what maintenance is needed Some may be tenanted for 5 or 10 years but some 12 months. The interior not inspected less often than 3 years and the exterior 2 years. We are concerned about keeping up a high standard. The finance is made available at a low rate and paid back by pay deduction.

Q. - Ford

There is a significant problem of ashthma in some areas of the smelter. What is the situation in the event of it having an adverse effect?

A. - New

I am not sure if it is a question of adverse affect. What has happened is that people with bronchial problems are switched to another section of the plant and they run a series of tests on a continuing basis on all men and research in this aspect. I am not trying to say it is a minor problem but it has tended to be a newsworthy item so it gets a high profile but the Company takes its role seriously. Complete attention is being paid to this problem. A qualified doctor and registered nurse are on duty the whole time the plant is in operation.

Legal Decisions

CASES RECEIVED

Notice of cases received are given for members' information. They will be printed in the "Valuer" as space permits and normally in date sequence.

CASES NOTED

Cases `noted' will not normally be published in the "Valuer".

Copies of cases `received' and `noted' may be obtained from the Registrar of the Court under whose jurisdiction the cases was heard. (A charge is normally made for photocopying.)

Valuer-General and another v. Wellington Rugby Football Union Inc.

Cooke & McMullin J.J. and Sir Clifford Richmond, C.A.112/80: 15th December 1982. Special valuation restored. In 1978 a Notice and Valuation was held invalid but this was restored by the Court of Appeal. A cross-appeal was dismissed.

Booker Industries Pty. Limited v. Wilson Parking (Qld.) Pty. (1982), 43ALR68.

The High Court of Australia has indicated that specific performance could be ordered to a fixing of a new rental after the lessee has given notice of lease renewal. See also Sudbrook Trading Estate Ltd. v. Eggleton [1982] 3 WLR 315; 1982 3 All ERI.

Kendall Wilson Securities Limited v. C. T. Barraclough & Barraclough Brothers Limited.

High Court of New Zealand A No. 1558/78. The main thrust of this decision revolves around contributory negligence and the reliance which may be placed upon a report by those advancing Trust Funds.

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