



Dick Bennison

Dick Bennison is a rural specialist in valuation, farm management and consultancy across the region.

Rural Market Trends

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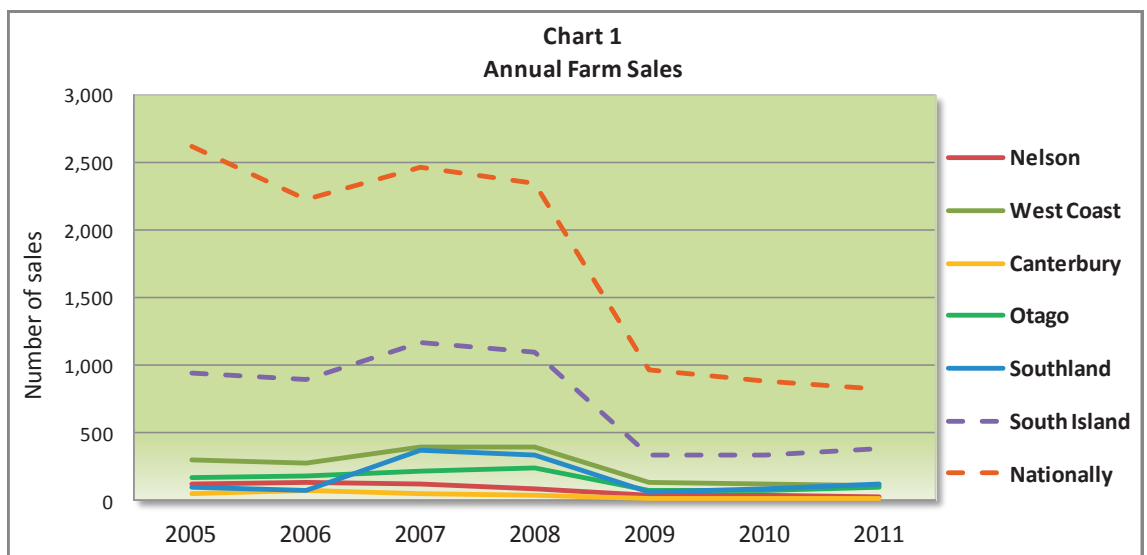
The past three years has been a very difficult time for the rural property market throughout the country and the “Top of the South” region has been no exception. Sales volumes have dropped significantly from the peak of market activity from 2005 to 2008. During that period the annual number of farm sales nationally averaged 2416. In the past three years the annual number of sales has dropped 63% to 895, as shown in Chart 1 below.

That national trend is mirrored throughout the South Island regions. Perhaps the most significant feature of this change in the market is the speed with which it occurred. The signs were evident early in 2008 with sales volumes declining in the early part of that year and then dropping dramatically following the onset of the global financial crisis (GFC).

The strong demand for rural property over the buoyant period of 2005 to 2008 resulted in a

marked increase in rural property values with the median farm price rising sharply from 2006 through to the peak of the market in mid-2008. Data from QV shows that rural property values grew steadily from 1997 onwards following the previous rural land recession. Up until 2002 that increase in values was largely supported by increasing agricultural output across all sectors with corresponding growth in Agri sector debt. From 2002, however, growth in agricultural output dropped dramatically going negative in 2004 and then fluctuating over 2005 to 2007.

Land values continued to grow over that period as did rural debt. It is clear that the ready availability of low-cost debt funding and the willingness of rural lenders to advance funds to grow their rural debt portfolios was a significant factor in the continued growth in land values up to early 2008. It is also clear that much of that growth in land values was speculative and largely



driven by the expectation of increasing value growth fuelled by available credit. Chart 2 below illustrates these trends.

As with any market that is largely driven by speculative forces rather than soundly based economic factors, the up-trends cannot continue unabated indefinitely. There were clear signs in the market that demand was waning and that some semblance of rational economic behaviour was returning to the market prior to the GFC with sales volumes declining in early 2008. The GFC, however, had a dramatic impact on the availability of credit across all sectors and the resultant changes in banking regulations have reinforced that position. The period from late 2008 through to mid-2010 was characterised by the reluctance of banks to extend credit for land purchases except where conditions were extremely favourable. Consequently demand evaporated almost overnight.

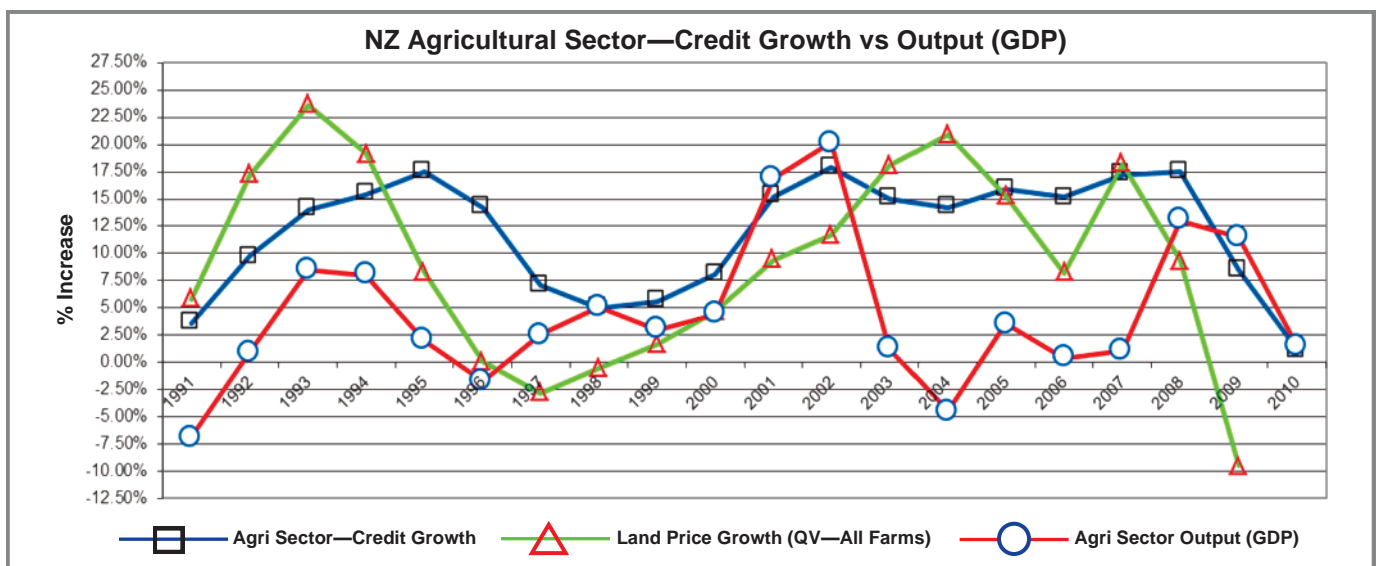
The rise in rural commodity prices over the past 18 months has significantly improved the viability and cash flows of pastoral farmers in both the dairy and meat sectors, to the point where most pastoral farmers over that period have been able to reduce current account debt and, in many cases, term debt. Traditionally, any marked increase in agricultural returns has quickly been followed by an increase in demand for land resulting in increased sales volume and values. The data shows quite clearly that that has not occurred over the past 12 months despite a continuation of favourable interest rates and strong prospects for meat and

dairy products. The rapid rise in values over 2005 through to 2008, combined with the sudden change in fortunes has left many farmers very wary of taking on additional debt, and there is clearly a trend towards getting balance sheets in order and restoring debt equity ratios to more manageable levels rather than purchasing land and extending debt levels.

There are, however, signs that the market is beginning to stir with recent data showing a gradual increase in the number of sales of pastoral properties throughout the country in both the dairy and meat sectors. Buyers, however, remain very cautious and are reluctant to entertain any upwards movement in values. Gone are the days of the quick sale to avoid missing out. Buyers are now taking their time in assessing the market and are only entering into negotiations when vendor expectation is realistic and in line with established market trends.

The horticultural sector continues to be hard hit, with uncertainty in the kiwifruit industry arising from the discovery of the disease *Pseudomonas syringae* pv. *actinidiae* (Psa) in the Bay of Plenty.

Returns to growers in the pipfruit industry continue to be at or below breakeven levels despite solid in-market returns. The value of the New Zealand dollar and the fractured nature of the pipfruit exporters appear to be working against the interests of the growers, and unless there is change in the short term there will be an inevitable reduction in orchard output.



The viticulture industry appears to have reached a turning point with the 2011 record vintage being largely sold by the end of the winter with no carry over likely into the 2012 vintage. As yet there is no indication of any increase in the price points for either wine or grapes, but there is an expectation that the situation won't get any worse. There have been a small number of sales of vineyard properties in Marlborough over the past six months after a period of almost no interest. Values are considerably less than those that prevailed up until 2008; however, there appears to be an acceptance that values have settled and aren't likely to fall any further. Demand remains fickle with a large number of vineyard properties on the market.

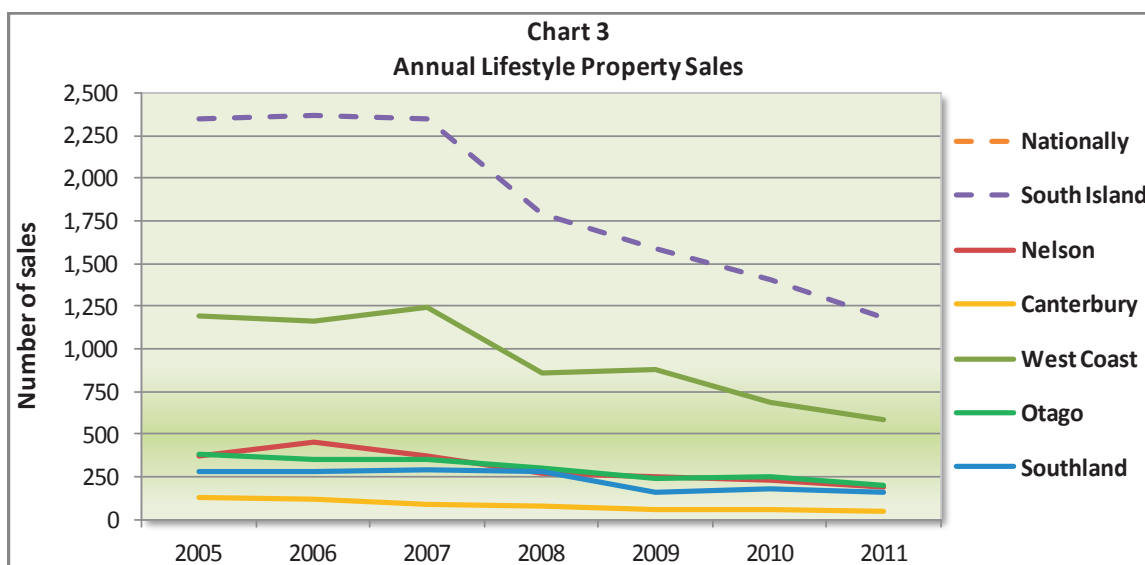
The lifestyle or small holding market has also been affected with the volume of sales falling sharply since 2008 as shown in Chart 3 below. Throughout the South Island the number of sales annually has dropped by 37%, from an average of 2216 per year to an average of 1395. In the Nelson/Marlborough region the drop has been slightly less at 33%, from an average of 336 to 224 per year. While sales volumes have dropped significantly over that period there has not been a corresponding reduction in the median sale price. Nationally there has been a 5% increase in the median sale price while in Nelson/Marlborough there has been a 9% increase.

So, while sales volumes have reduced significantly the median sale price has shown some growth indicating a steady underlying demand and a willingness from the

market to recognise value in lifestyle properties. Some caution is required, however, in interpreting median sale price data. The median sale price tracks the movement in the sale prices of transactions and is not necessarily an accurate indicator of movements in value. The median sale price is highly influenced by the nature of properties being sold at any point in time and can become highly volatile or variable with low volumes of data. A rise in median sale price may indicate a rise in the number of higher-value properties selling rather than an increase in value.

So where is the market heading from here? The economic data coupled with the evidence of market activity over the past 12 months indicates that there is unlikely to be any significant short-term change in the market. There are indications of growing demand for both dairy and non-dairy pastoral land, but any significant change in values is unlikely until there are clear signs of medium-term stability to farm returns, and interest rates coupled with improved debt equity ratios.

There are no signs of any growth in demand for horticultural land. It will take some time before the market can absorb the number of vineyard properties currently available on the market and the kiwifruit and pipfruit industries are both facing major challenges that will have an ongoing impact on market demand. At best the market may show some increase in the volume of sales of pastoral land but with little prospect of any substantial growth in values. ■





Barry Rowe

Barry Rowe specialises in smallholdings and residential properties

Building or Buying an Eco-Friendly Home?

It is great to see more and more Nelson architects, building companies and suppliers taking an interest in sustainable, energy-efficient housing. But what makes a house a truly eco-friendly, sustainable, healthy, energy-efficient home of the future?

Eco-friendly homes use resources that came from the earth in such a way that if you put them back they would not cause any harm.



Sustainable and eco homes are related but are not exactly the same thing. Sustainability implies using land and energy with the maximum efficiency that will not compromise the needs of future generations.

Eco-friendly or sustainable design is not just a question of choosing between the bad and the good, the easy and the difficult – it makes you look at the broader picture and the long-term impact of the house on the environment and the energy dependency throughout its life.

Energy efficiency is the main priority and cost-saving benefits can be achieved with:

- Photo voltaic (PV) panels using solar energy to generate electricity using the sun's light.
- Passive solar design for natural heating and cooling.
- Thermally broken framing and structural design.*
- Above-standard roof and wall woollen insulation.
- Thermally broken low-e double glazing.
- Solar hot water.
- Energy-efficient lighting and appliances.

* Most New Zealand homes can be compared to chilly bins with holes in them – simply inefficient, even those that are well insulated. It is a common sight in the winter months to

see condensation on exterior walls of homes, clearly showing the timber frames behind them. This condensation is a sure sign of thermal bridging.

A thermal bridge is created when materials that are poor insulators come in contact (such as standard wooden frame or joinery) allowing heat to escape through the path created. Insulation installed around a bridge is of little help in preventing heat loss or gain due to thermal bridging between the two materials. Aside from heat loss/gain and condensation, thermal bridging can also cause more serious problems such as mould growth and deterioration of building material.

The thermal bridging can be eliminated by redesigning how conventional homes are constructed using additional insulating components, and new designs for conventional timber framing, in particular ground to footings, footings to foundation, foundation to walls, external walls to cladding, and walls to roof.

Sustainable and eco-friendly building materials provide benefits of low environmental impact. This can be achieved with:

- Sustainable, certified, toxic treatment-free timber including non-treated, locally grown Douglas Fir framing.
- Recycled timber mulch weatherboard and Permapanel cladding.
- Recycled plastic and wood decking that requires no maintenance or staining.
- Inert gypsum-based wall and ceiling linings.
- Recycled architraves and skirting boards.
- Natural floor surfaces such as bamboo and cork flooring.
- Natural wool insulation.
- Low volatile organic compounds (VOC) and toxic-free paints, finishes and adhesives.
- Minimising building materials waste and recycling.
- Study life-cycle analysis of all building materials.

Water efficiency provides cost-saving benefits with:

- Water-conserving appliances including toilets, showers, taps, washing machine and dish washer.
- Rainwater collection system.
- Greywater recycling system.
- Controlled irrigation system.



Site impact, environmental and quality of life benefits can be achieved by:

- Working with the contours of the land to minimise cuts and the impact.
- Designing the house to take full advantage of the sun.
- Minimising disruption to the existing landscape.
- Landscaping gardens with natives, fruit trees and vegetable patches.

Health and wellbeing benefits can be achieved by:

- Considering healthy lighting, colour and sound, controlled temperature and humidity and good indoor air quality to enhance the living environment.
- Reducing formaldehyde emissions and use pollution-fighting indoor plants.
- Applying an integrated wiring system for lighting, power, security, fire alarm and audio facilities.
- Designing a safe and user-friendly home.

Economic Performance benefits can be achieved by:

- Considering the maintenance of the home plus initial 'running costs' pay-back period.
- Assessing the home according to various schemes including the New Zealand Green Building Council's Green Star scheme, BRANZ Green Home Scheme, Project C&D Waste Minimisation Programme, and BBE eco-principles.

So while there are some new home buyers seeking builders of sustainable and energy-efficient houses why aren't there more? We believe there are two main reasons: cost and lack of compulsion. Cost, because there is an ingrained mentality that the least cost equals the best value for money. The estimated additional cost of an energy efficient, eco-friendly home is approximately 10% more than a conventional new

home. Life cycle costings can demonstrate that sustainable and energy-efficient homes are more cost effective over the long term. It does initially cost more to build a sustainable and energy-efficient home, but over the long term the maintenance and on-going running costs are lower resulting in significant financial savings. Energy-efficient and eco-friendly principles will have future benefits and savings through reduced costs to both property owners and the wider environment. Under normal valuation principles these savings translate into a monetary value that can be discounted as a future benefit. One would expect that in the future these properties will attract a sale price premium; however, we have yet to see this occur.

There are now many properties in the wider Nelson region that have been developed with similar energy-efficient and eco-friendly principles, but few have been sold on the open market. Consequently, this is a virtually untested market and we have yet to see if prospective purchasers will be prepared to pay a premium for these features.

We also regard a lack of compulsion as the other main reason for a slow adoption of these energy-efficient and eco-friendly principles. In October 2008 it became compulsory for all new residential homes to have double glazing. The building industry and wider market quickly adapted and it is now fully accepted as a minimum standard. Similarly, energy-efficient and eco-friendly principles could be made compulsory and the wider market would quickly adapt.

We have recently valued a home from plans and specifications that is to be built by Hybrid Homes. This local company is at the forefront of incorporating eco- and energy-efficient features into new homes they build. This home will have a number of features that will ensure it has a "net zero" energy requirement. Except for the solar power system with 14 photo voltaic roof panels generating power, this home will look little different from other new homes in this subdivision ■



Simon Charles

Simon Charles works alongside Murray Lauchlan and Ian Wallace in the Commercial valuation team.

Back To Nelson – Where It All Began

Originally a home-grown Nelsonian, I attended Birchwood School, Broadgreen Intermediate and then finally, Nayland College. I left the region in 2000 to further my studies at Lincoln University where I obtained a Bachelor of Commerce majoring in Valuation and Property Management.

After graduating in April 2004, my career as a valuer started when I joined DTZ New Zealand in Wellington. I worked in their commercial team valuing CBD commercial properties in addition to a wide range of industrial properties located throughout the Wellington region. During my time in Wellington I gained my New Zealand Property Valuation Registration in 2007. After that I had my sights set on travelling and working abroad. The original plan, like so many young New Zealanders, was to head straight to London and start my “Big OE”. However, at this time I spotted an internal transfer opportunity with DTZ in the Middle East. At that time I didn’t know much about the region but the more I researched, the more I thought that place was the place to be! Finally, in February 2008 my fiancé and I packed our bags, left Wellington and moved to the UAE.

I was originally based in Abu Dhabi but then moved to Dubai when DTZ opened an office there in May 2008. At that time Dubai was a very fast-growing economy. On the first day in this new office I was one of only three staff members but within two months the office had grown to more than 20 people! I undertook a wide range of valuation work during my time in the Middle East, the highlights being valuing the world’s tallest tower, valuing a proposed new “city” in Egypt, and valuing a 32 km² development on the coast of Oman. The



Dubai - Burj Khalifa - World's tallest tower under construction



The industrial cool store in the Republic of Djibouti

work was wide ranging: I was even sent to the horn of Africa to value an industrial cool store in the Republic of Djibouti!

We were in the Middle East for two years and therefore experienced the significant ups of the “booming” economy in 2008, and also witnessed the downside in 2009 when the Global Financial Crisis really took a grip on the region. In March 2010 we decided to move to London. I took up a position within DTZ’s International Valuation Team based in Mayfair. The job involved coordinating and valuing international property portfolios for London-based banks and investors. Highlights of my time in this role were valuing a large outlet centre portfolio throughout Western Europe and also retail portfolios throughout Germany and Switzerland. On a personal level, we really enjoyed travelling and exploring Europe. London is the perfect base from which to travel.

At no time along the way did I lose the desire to move back and settle in my hometown of Nelson. All I needed to do was convince Lisa (my fiancée) that the South Island was not as bad as North Islanders make out! Once she had visited Nelson the sun, beaches, mountains and general atmosphere did the convincing for me. So here we are. I am back in Nelson after some 10 years away.

I am delighted to be working for Duke & Cooke, a local firm with a well-earned reputation. I will initially work alongside Murray and Ian in the commercial team. I will work hard to continue to provide you with a great level of service. ■

New Unit Titles Legislation Now in Force

New rules for body corporate and unit title holders

On 20 June 2011 the Unit Titles Act 2010 and the Unit Titles Regulations 2011 came into effect. The most widely understood form of a unit title is an apartment consisting of ownership of part of a building together with a share in the common property. Unit titles are used for retail and commercial properties, as well as hotels and apartment blocks and are also commonly used in smaller two-, three- and four-unit developments.

The new legislation has brought many changes to the unit titles regime, some of which are outlined below.

Common Property

The common property is now owned by the body corporate. Under the previous legislation the common property was owned collectively by all the unit owners.

Long-term maintenance plan and funds

Operating account: The body corporate must now establish and maintain an operating account to meet the expenses relating to the management and governance of the development; the provision of services and amenities for the benefit of the units; the costs associated with statutory compliance; any ground rental or licence fee relating to the base land; and the annual maintenance expenses.

This is not a significant change for large body corporates as they would generally already be running an account of this nature. However, for small developments, for example a two-unit development with no common property, it is unlikely that there would be an operating account. Contracting out of this is not an option; it is a statutory requirement.

Long-term maintenance plan: The body corporate must establish and maintain a long-term maintenance plan to cover at least a 10-year period. The plan should identify further maintenance requirements, estimate the costs involved and create a fund to pay for the long-term maintenance. The plan must be reviewed at least once every three years.

Most large body corporates would have considered the long-term maintenance of the development so complying with this statutory requirement should not be too onerous. For

small developments, however, this creates a new obligation to which they must comply.

Long-term maintenance fund: A body corporate must establish and maintain a long-term maintenance fund, unless the body corporate decides not to do so; this must be undertaken by special resolution. It is important that if a body corporate chooses not to establish a long-term maintenance fund a resolution recording that decision must be passed.

Disclosure statements are compulsory

Pre-contract disclosure to a prospective buyer: Before a buyer enters into an Agreement for Sale and Purchase for a unit the seller must provide a pre-contract disclosure statement to the buyer. This must include information on the body corporate levies, planned maintenance and how that is to be funded, details of money held by the body corporate, disclosure of any watertight home issues, the body corporate rules and other information about unit title ownership.

Pre-settlement disclosure to a prospective buyer: After the seller and the buyer have entered into an Agreement for Sale and Purchase, the seller must then provide the buyer with pre-settlement disclosure. This must include comprehensive disclosure about the body corporate levies and metered charges, including any outstanding debts, whether there are any unpaid costs relating to repairs to the building or infrastructure of the unit, penalty interest being charged by the body corporate, details of any proceedings pending against the body corporate in any court or tribunal, and any changes to the body corporate rules since the date of the previous disclosure. The disclosure must be provided no later than the fifth working day before settlement.

Additional disclosure: The buyer may request additional disclosure, at their own cost.

Consequences of failing to provide disclosure: If the seller does not give the pre-settlement disclosure statement and any requested additional disclosure statement to the buyer no later than the fifth working day before the settlement date the buyer may:

- Delay settlement, or
- Cancel the Agreement for Sale and Purchase by notice.

The seller, or a person authorised by the seller, must sign the disclosure statements and the buyer is entitled to rely on the information contained in the disclosure statements.

Operational rules

The default body corporate rules have been amended by the new legislation. Existing unit title developments have 15 months (from 20 June 2011 to 19 September 2012) to amend, revoke or make additions to their operational rules. If this is not carried out, the new default rules will apply.

Insurance: a reminder

All unit title developments must be insured by the body corporate, and not by the individual owners. The individual owners should have insurance for their internal fixtures, fittings, chattels and contents which are not covered by the body corporate insurance. The new legislation has brought in major changes. If you run a body corporate or own a unit title property and need some guidance on how to comply with these new provisions, please be in touch. ■

By Adrienne Olsen, Adroite Communications, Wellington. This article was first published in Knapps' client newsletter Fineprint, Winter 2011.



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