

PROPERTY: BE ASSURED, GET INSURED

The topic of insurance always seems to divide people into two camps. The first camp pertains to those that decide to 'wing it', after all why pay the insurance companies anything for something that may never happen. The second camp are those that decide to act responsibly and at least try to cover themselves should some untoward event occur. That is the point of 'insurance', you never can tell what is around the corner and should something happen it is a great relief to know that your insurance will cover the loss you expect it to. The point of this article is the frequently asked questions we get as Registered Valuers that relate to the asset involved.

The value of any asset or assets directly affects the amount you are insured for; the premium you pay and the amount you receive in the event of a loss. Therefore, it is important that your assets are properly valued and that the value is kept updated. There is no point in going to all the effort of insuring your assets only to discover that in the event of a loss the replacement value was not properly analysed or has been left so long that it no longer sufficiently covers what is required to cover your loss.

"You don't have to pray to God anymore when there are storms in the sky, but you do have to be insured..."

Bertolt Brecht

The risks are clearly increasing too. Apart from the everyday calamities that can affect us from a floods, fire or theft, Mother Nature has also dealt some severe hands with regard to the extreme weather we have experienced over recent years. Her indelible mark on our assets is always random, normally ferocious and often very destructive. Therefore Williams' Harvey advocates the view that you cannot afford not to have adequate insurance cover to protect your assets. After all, you have worked hard to achieve what you have, why would you not want to protect and preserve what you have created? When you are a property owner, insurance of that asset is absolutely critical. Residential is easy, cover is simply arranged on the replacement of the same floor area of your home. However, if you have a very large home (over 500m²) the insurance company may require a valuation. Interestingly, in the last few years insurers have moved to farm buildings being on a square meterage basis in the same way as residential properties. Policies are still

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"Hello, I'd like to apply for some property insurance."

written on both sum insured and square meterage at present. However, there tends to be great difficulty in getting farmers to take the time to measure each building.

For commercial property you will either have an Agreed Replacement Value (ARV) - this is an amount agreed between yourself and the insurance company which will be paid out in the event of loss or Replacement Value (RV) which requires a valuation to assess what the replacement value is. ARV is an informed or intelligent guess at the replacement value from someone who is not an expert and you may be we well under or over insured. This

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Welcome to the latest issue of the ValGroup Bulletin. This publication is produced biannually and focuses on topical issues along with localised market commentary. The bulletin can also be viewed on the ValGroup website at www.valgroup.co.nz

ValGroup is a New Zealand wide network of independent locally owned valuation and property consultancy practices.

The ValGroup network brings together many highly qualified and experienced property professionals (located from Whangarei to Invercargill) who are much more than just registered valuers. They also have the necessary skill and experience to act as your front line property advisor to provide appropriate solutions, with absolute integrity to meet client's needs locally, regionally or nationally.

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'guess' at a replacement value also needs to include an amount for demolition.

The ARV is the total amount the insurer will pay and if there is a total loss and the site has to be cleared before re-building; demolition comes out of the same ARV sum insured. You can see therefore, that there will be even less dollars available for the actual rebuilding.

In the same way this 'guess' will most likely not take inflationary provision into account, so with a loss near the end of the insuring terms, it makes it even more unlikely to have an adequate replacement sum insured. Whichever way the ARV is the maximum payout in the event of loss.

RV is an accurately assessed value that will replace the building lost or damaged with modern materials. You are adequately covered and paying a premium that is at the right level. With the general upward trend of premiums we have seen a downward trend in the frequency property owners value their assets or even renew their insurance cover. It is still a fact that paying a premium still turns out to be the lesser of two evils should you ever experience a loss. Underwriters vary with their policies, for instance one underwriter has a policy of allowing ARV up to \$500,000 then a registered valuation is required. They do however have a 'grey' area of \$500,000 to \$1,000,000 where they will accept ARV if you can convince them that the client has a reasonable basis for nominating a sum insured in this value range. For anything above \$1,000,000 a valuation is required by a Registered Valuer. That, together with the way construction costs have dramatically increased over the last 24 months, Valgroup strongly recommends

you undertake a fresh assessment annually when your policy is being renewed. For smaller structures biennially is often adequate.

As part of your insurance policy the Fire Service Commission charges a levy on the value of the assets insured against the risk of fire. This levy is payable on the sum insured, however, where cover is on a reinstatement basis, the levy need only be paid on the indemnity value if:

- a valuation certificate has been obtained clearly establishing the indemnity value of the property. This must be no more than two years old
- or
- a declaration is signed by yourself stating the declared indemnity value is fair and reasonable.

As a very minimum, as a proprietor you should be instructing a valuation of your assets for insurance purposes at least biennially, preferably annually. For those of you in the first camp I urge you to give this topic your serious attention and join those in the second camp. Should you require any further advice regarding any of the issues in this article please do not hesitate to contact a member of ValGroup.

By Paul Harvey



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NEW ZEALAND PROPERTY COMMENTARY

This New Zealand market commentary was prepared from a survey of ValGroup member firms, and shows members' responses in four key sectors; residential, commercial, industrial and farming.

If you have any questions regarding the survey, please contact the nearest ValGroup firm in your area. See the directory listings on the back of this bulletin.

Survey compiled February 2010.



		LOCALITY	Whangarei
Residential	Average house price for locality as provided by REINZ Statistics to the latest month	Average House Price	\$280,000
Commercial	Single floor plate of between 300 m ² and 600 m ² in multi storeyed office building within CBD. Premises are 'B category' and typically feature a modern structure served by a lift and with air conditioning. The premises are also carpeted and have partition.	Net Rental (\$/m ²)	\$150-180
		Outgoings (\$/m ²)	\$40
		Yield	6.8-9.0%
Industrial	Good quality modern distribution style premise with 6 metre stud height and in close proximity of a primary State Highway. Warehouse is greater than 1,000 m ² and the office accommodation is carpeted, partitioned and with basic air conditioning.	Net Rental (\$/m ²)	
		Warehouse	\$90-120
		Offices	\$100-120
		Carparks	\$8-15 PW
		Yield	8.0-9.0%
Type of Farm		Unit of Value	
Hill Country	A standard 4,000-5,000 stock unit property with at least 80% easy to medium hill contours, balance flat to easy. Located within 30km of service town or city.	\$ per stock unit	\$700-900
Easy Country	Standard 120 ha pastoral/cropping suited property with at least 90% arable suited contours. Non-irrigated. Located within 30km of service town or city.	\$ per hectare	\$15-\$20,000
Dairy	Standard dairy farm with production of between 80,000kg ms and 100,000kg ms and with just one dwelling. Flat to very easy contours. Within 30km of service town or city.	\$ per kg Milk Solids	\$25-\$35
		RESPONDENTS	Garton & Associates Ltd



Low sales numbers is the most striking feature of the market for the start of 2010. The level is about the same as Jan 09 which is when the extent of the financial crisis had been exposed. Listings have increased slightly but median prices are declining. This continues the trends we noticed in November and December 09, suggesting the 2009 surge in the market is now easing off.

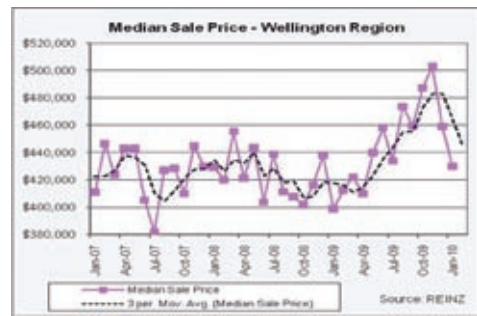
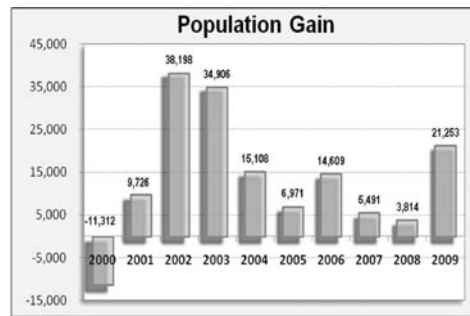
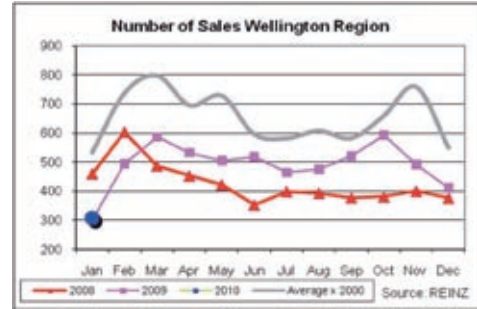
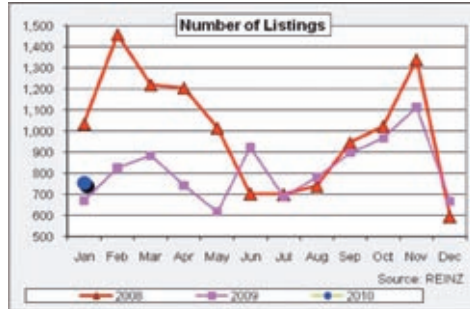
The Real Estate Institute's (REINZ) comments on their statistics notes that there is a surge in listings so far this month. This confirms the changes we have noticed. We also note that selling times have returned to normal and tend to be increasing, suggesting easing demand.

This could be an effect of the Real Estate Agents Act 2008 that since Nov 09 makes agents provide a fair market price and makes them more accountable to market the property at this price. However we believe it is a natural cycle and more to do with population and the effects of the economy starting to have an effect on property.

Like all markets, property is cyclical and given the 2009 increase we are now looking

at a period of adjustment. The present strong price increase should be easing off in the early part of 2010. Later in the year we expect more even conditions with minimal growth in prices for at least a year.

Finance availability has a significant influence on the property market. The world financial crisis had a major impact on the market and this is by no means over. Government assistance packages in the USA and



Auckland-Central (Eastern Suburbs)	Auckland City (All Auckland City Council Area)	Auckland-South (Manukau City)	Auckland-North Shore	Tauranga	Hamilton	Rotorua	Gisborne	Napier	Hastings	Dannevirke
\$820,000	\$520,200	\$457,000	\$535,500	\$422,000	\$330,000	\$215,000	\$252,500	\$302,750	\$302,500	\$136,000
N/A	\$180-\$260	\$170-200	\$200	\$210	\$240	\$165	\$145	\$170	\$170	\$125
N/A	\$50-75	\$50-65	\$60	\$30	\$40-70	\$25	\$20-30	\$25-30	\$30-35	\$10
N/A	7-8.0%	8.5-9.5%	8.25%	8.50%	8.5-9.75%	8.5-9%	8.5-9.5%	8.25-8.75%	8.50%	8.75-9.25%
N/A	\$95-125	\$90-100	\$90	\$75	\$85	\$60-65	\$70-80	\$70	\$65	\$55
N/A	\$150-175	\$150	\$160	\$230	\$125	\$100-110	\$110-125	\$110	\$110	\$90
N/A	Inclusive	Inclusive	Inclusive	Inclusive	\$10-15 PW	inclusive	Inclusive	\$12 PW	\$8 PW	\$5 PW
N/A	8.0-8.50%	8.0-8.5%	8.50%	8.00%	7.5-9.5%	9.00%	8.5-9.0%	8.0-8.50%	8.50-9.5%	9.50-10.5%
N/A	N/A	N/A	N/A	N/A	\$550-800	N/A	\$450-550	\$600-700	\$600-700	\$550-650
N/A	N/A	N/A	N/A	\$22,500	\$15-22,000	N/A	\$30-\$40,000	\$8-10,000	\$8-10,000	\$7-9,000
N/A	N/A	N/A	N/A	\$35	\$40-50	N/A	\$30-35	\$30-35	\$30-35	\$35-40
Barratt-Boyes Jefferies Valuation Ltd	Barratt-Boyes Jefferies Valuation Ltd	Barratt-Boyes Jefferies Valuation Ltd	Somervilles Valuers Ltd	Middleton Valuation	Ashworth Lockwood Ltd	Jenks Valuation Ltd	Lewis Wright Ltd	Williams' Harvey Ltd	Williams' Harvey Ltd	Williams' Harvey Ltd

ISSUED BY NICK SMITH
18 FEBRUARY, 2010



particularly as the building industry all but stopped in 2008-9.

A shortage of new homes being built in Wellington should ensure persistent long term value increases across most sectors, but it is less certain which areas and what type of property will benefit.

Property values will not keep increasing indefinitely. Affordability eventually constrains what buyers can afford. In recent years property prices have increased more than salaries and the long term trend is for property prices to be some 20% above the long term average.

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other western countries as well as in NZ are coming to an end. This will reduce the supply of money available and will increase the cost. For property this will reduce demand and ease pressure on price.

The Reserve Bank has introduced new requirements for the trading banks which are increasing the cost of mortgages and thus affecting the property market. Banks are now more risk averse, making it difficult for some borrowers to raise funds especially for less saleable properties.

Increasing population is expected to offset the trends above. The graph opposite shows a very noticeable gain this year, the biggest since 2003. The finance constraint will limit the effect of the extra demand in the short term but it will be an influence in the longer term

The Government is determined to improve the processing of resource consents and will introduce incentives to ensure this occurs from 1 July 2010, Environment Minister Nick Smith says.

Dr Smith today released details of the regulations for consultation.

“Last year’s report on resource consent processing identified that 31% of resource consents were processed late and another 28% involved an extension of time,” Dr Smith said. “The report also identified that this problem had got progressively worse over the last decade.

“This new policy of a financial penalty on councils for late consent processing is designed to reverse this trend and get councils focused on providing a timely service.”

The discount regulations suggested approach is that councils must provide a discount of 25% for a consent one week late, with an additional 5% per week up to a maximum of 80%. The regulations also set out procedures for determining fault, and definitions to ensure the incentives are workable.

“It has long been councils’ policy that a penalty is loaded on ratepayers for failing to pay rates on time. If it’s good enough for the goose; it’s good enough for the gander. This new policy applies the same principle where the council fails to meet statutory time frames.

Wanganui	Palmerston North	Masterton	Wellington-City	Blenheim	Christchurch	Timaru	Dunedin	Invercargill
\$206,000	\$264,000	\$235,000	\$400,000	\$340,142	\$340,000	\$224,000	\$276,875	\$189,025
\$140	\$170	\$145	\$240	\$150	\$210	\$130-150	\$180	\$125
\$30	\$25	\$20	\$80	\$50	\$50	\$30-35	\$55	\$25-35
9.50%	8.25%	8.75%	7.5-8.5%	8.25%	8.00%	8.75-9.75%	7.5-8%	8.5-9%
\$55	\$75	\$55	\$75	\$100	\$85	\$75-85	\$95	\$55-60
\$115	\$145	\$130	\$120	\$110	\$145	\$110-125	\$135	\$90-100
\$9 PW	\$8.50 PW	\$5 PW	\$20 PW	\$15 PW	\$5-12 PW	\$5-7.50 PW	\$15-20 PW	\$5-10 PW
9.50%	8.00%	8.75%	8.0-9.0%	8.50%	8.25%	8.0-9.0%	7.0-7.5%	8.5-9%
\$450-500	\$450-620	\$500-580	N/A	\$850	\$600-800	\$700-800	\$350-450	N/A
\$22,000	\$28-35,000	\$28-\$32,000	N/A	\$15,000	\$18-22,500	\$15-17,000	\$15,000	N/A
\$30-40	\$32-42	\$30-35	N/A	\$28	\$30-35	\$30-35	\$30	N/A
Morgan Property Advisors	Morgan Property Advisors	Morgan Property Advisors	Appraisal Property Consultancy	Alexander Hayward Ltd	Ford Baker Valuation Ltd	Schrader Wilson Valuation Ltd	Macpherson Valuation Ltd	Chadderton & Associates

“These regulations will set the minimum discount for lateness but councils will have the option of developing their own tougher regime if they wish. For instance, some councils already offer a free consent if late (i.e. a 100% discount) and will be able to continue to do so.

“This new policy is about recognising that time is money. New Zealand’s economic recovery cannot be held back by inefficient and costly red tape.

“The Government is seeking feedback on the details of these regulations and will then work to have them in place by 1 July this year.”

WHAT'S A BUILDERS' GUARANTEE WORTH?

The Registered Master Builders Federation (RMBF) is New Zealand's largest construction industry association. The members of the Federation complete over two thirds of all construction work (by dollar value) in New Zealand. Membership is made up of the majority of qualified builders including the large residential volume builders and major construction companies.

Represented regionally by 22 Local Associations spread throughout the country, the association enables the necessary checks and balances available on the ground to ensure that members remain the 'best of the best' in the industry.

The RMBF runs a company called Master Build Services Limited (MBS). The purpose of MBS is to provide the Master Build Guarantee for new homes and alterations and additions. MBS is the largest provider of home warranty guarantees in New Zealand, available exclusively to RMBF members and their clients.

The Master Build Guarantees are the most comprehensive products available on the market. They cover residential building work with a contract price of \$25,000 and over and cover full-contract, labour-only and managed labour-only work carried out by a Registered Master Builder. Work by subcontractors, as well as materials and rot is covered, but conditions apply. MBS has recently launched two new 10 year Master Build Guarantees: the "Classic" and the "Premium" which have a cover of up to a maximum \$500,000.

The Classic Guarantee provides protection against any defects in workmanship and materials for two years after the completion of the building, plus cover in specific structural elements of the building work for the remainder of the 10 year term of the Guarantee. The Premium Guarantee includes all of the above cover plus loss of deposit and non completion.

From March 2012 it will be compulsory for anyone undertaking 'restricted building work' to be a licensed building practitioner. Restricted building work relates primarily to foundations, structure and weather tightness (cladding, roofing, etc.) and some fire protection services in low-med rise apartment buildings. There are a number of licenses that cover restricted building work being carpentry, foundations, roofing, external plastering, bricklaying and block laying, design and site. The Government has recently launched a streamlined licensing application process for qualified applicants. RMBF supports the licensing regime as it will lift standards and provide the public with certainty that whoever is undertaking work on their home has the required skills to do so. At present anyone can call themselves a builder as there are no barriers to entry. Registered Master Builders Federation has many thousands of qualified members and they will be encouraged to become licensed.

By Warwick Quinn

Chief Executive of the Registered Master Builders' Federation and Master Build Services Limited

NEW BUILDING PROGRESS AND COMPLETION REPORTS

Building contracts usually include a payment schedule that requires progress payments to be made at various stages of the project, such as when the building is closed in or when the roof is on. The question is - how much should be paid and at what stage?

If the contracted payments are too high at the start, relative to the work completed, this favours the builder and puts the owner at risk, whereas too little makes it difficult for the builder to meet his commitments.

For the owner there is often a need to obtain funding for the progress payments and the lender will want to know the project has progressed sufficiently to advance more money. When progress payments are due it is normal for the valuer to be asked to advise on the extent of the work completed. We report on the value of the work that has been put in place and the overall progress with the building (the percentage complete) based on the value of the house (rather than the construction cost).

In light of the recent decline in property prices, lenders are now asking for full valuation reports at the end of the project. For some borrowers it could mean that the value at the start of the project was higher than it will be upon completion.

When a new home owner may already be funding the best part of \$200,000 for the land, funding building progress payments is important. This new trend raises an interesting point. If the value is less than expected, will the bank change the sum it contracted to lend? This would possibly increase the financial pressure on the owner, but it could also be in breach of the loan agreement.

Our suggestion to new home builders, lenders, banks and builders is that agreement by all parties is reached on when the progress payments are to be made, how they are funded and the documentation required, before the building contract is completed. This could save considerable angst in the building process and make it clear to all involved what will happen when.

Contact a ValGroup member if you need assistance with these aspects early on in the process to ensure all payments and values are appropriate for the project and agreements for loans and building contracts.



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