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22 October 2008

Tracy Berghan
Flood Protection
Greater Wellington Regional Council
The Regional Council Centre
Wellington

Dear Tracy,

Re: Mangaroa Flood/Erosion Hazard Assessment

Your email dated Monday 13 October 2008 refers.

I have not viewed flood and erosion maps, but do not consider this is necessary in order for me to answer your questions.

It goes without saying that it is vital for all Councils to inform both present owners and all future owners of any hazards and potential assessed hazards inherent in any property. Councils must remain free to undertake and to publish these assessments, without fear or favour, to enable everyone involved to make fully informed decisions, including considerable capital investment/expenditure in the cases of purchase or undertaking erection of buildings.

The definition of value is the sum at which a property will sell for on the open market between a willing buyer and a willing seller, having regard to all the characteristics and future benefits inherent in the property, where neither party is deemed to be anxious that they would overlook any usual consideration and both parties are deemed to be fully informed.

The valuer endeavours to place themselves in the place of an average vendor/purchaser. The property is thoroughly inspected, the title is searched and council records as to building and planning influences are researched. In other words, the valuer must be fully informed about every available aspect of the property. If issues arise during the research which the valuer is not competent to assess or comment on, the valuer will either recommend employment of the specialist required (engineer, building inspector etc) or will tag the assessment and report with that highlighted issue needing to be clarified and resolved.

The essence of most valuations is the comparison of the property to be assessed with properties which have sold which have similar characteristics in location age and size to the property under assessment. The properties which have sold will, with few exceptions, reflect the operation of the open market between willing but not anxious parties who were fully informed. The analysis of the comparable sales evidence will usually define a regular trend which the valuer will be able to rely upon in assessing the value of the subject property.

Rating valuations undertaken by QV Valuations for the Territorial Authority vary from a market value in only a few minor ways.

1. The rating value is assessed at a particular date for the purpose of uniformity.
2. The rating value is conducted on a mass appraisal basis rather than a property by property basis. Very few properties (relatively) will be the subject of a detailed inspection.
3. Reliance is placed on percentage increases which will broadly represent the norm. The percentage increases are based on the analysis of the sales transaction data which is available.
4. The principal purpose of the rating value is to assess the incidence of rates and its equitable distribution amongst all ratepayers.
5. First the capital (total) value is assessed, then the land value. The value of improvements is the balance between the capital and the land values.

On the date of the rating value, there should be no great margin between a rating value and a current market value. The only difference is the valuer of the current market value has had the advantage of a more robust and focussed inspection process.

You have asked what influence a flood hazard notation on a property through the District Plan has. This becomes, like most other noted issues, a matter of judgement. For example, the valuer may conclude that the buildings are so far removed from the river that the hazard falls under the heading of to be noted, but an acceptable risk. Alternatively, seeing the flood hazard notation on the District Plan and noting the proximity of the buildings to the river edge should cause the valuer to start asking questions. If the answers are not sufficiently clear, the valuer will need to either recommend employment of an engineer or tag the assessment and report noting the issue as needing to be clarified and resolved.

While the flood hazard notation on the District Plan is very helpful to the valuer, even without the notation, the same questions should be raised as all buildings within proximity of rivers are known to be at risk from both flooding and erosion events.

In the end it is the purchaser which makes the final decision to proceed and purchase or not. It is not so much a question of value, but rather one of do I want this property and can I live with the known risk. If the risk is deemed to be too high, the purchaser will not proceed irrespective of price. If the risk is deemed to be acceptable, the purchaser will proceed to purchase and the price is unlikely to be influenced by the hazard notation.

The most likely circumstance where the price may be influenced by a hazard notation is where an engineer has been employed to measure the risk and the engineer has advised the property can be protected by the installation of a flood protection structure. In that instance the purchaser may modify their offer by deducting the estimated cost to put the flood protection structure in place. Such an offer may or may not be accepted by the vendor.

The bottom line is that there is no one generic answer as to the influence of a hazard notation. Each property will possess its own peculiar characteristics and each property's risk profile will be different.

I would expect any property with a high risk profile will have its marketability influenced negatively whether or not the District Plan includes the hazard notation. A risk is either evident or it is not.

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If the District Plan includes the hazard notation, but the risk is not evident, and on prudent inquiry the risk of hazard is measured to be remote or low, the value of the property is unlikely to be influenced one way or the other.

In between those two extremes will be properties which will be prone to being negatively affected because their level of marketability will be influenced by both the hazard notation and an evident risk. In these instances the number of potential purchasers will be reduced. Where a hazard notation is present and the risk is evident, many purchasers will withdraw their interest. It generally follows, but not always, that where there are fewer purchasers, a lower price realisation occurs. That is a result of reduced demand. Demand is the principal driver of value.

Much of the above may be viewed as academic, but it is based on my practical experience of some 38 years of working with land (including as a public valuer) and observing how people interact to resolve land related issues. In the end there needs to be an acknowledgement that all New Zealanders have a right to be fully informed about the most significant purchase/investment most will make. All the current owners, if they could step into the shoes of the purchaser, are likely to agree that they would want to have ready access to this flood/erosion hazard information.

I hope I have provided the information you were seeking.

Yours sincerely
O'Brien Property Consultancy Limited.



Peter O'Brien – FNZIV & FPINZ