

Introduction to the Research Paper

This Covering paper provides background to the production of the Draft Research Paper entitled “Ground Lease Rent Determinations: RDV a New Method”, by Authors panel: Reid Quinlan, Alan Pope and Gary Cheyne. It is accompanied by a brief Question and Answer summary which is intended to facilitate understanding and provide a guide to the basics of the new Method.

History

In June 2017, a client enquiry from a party in New Zealand who is both ground lessor and ground lessee, was received by The Valuers' Education and Integrity Foundation (VEIF), to arrange research on the controversial topic of ground lease rent fixations. Concern had been expressed by professional and industry participants about the inelasticity of the ground rental rate over time. The scope of the research requested looking at developing an alternative methodology to construct a new way to assess market ground rents within perpetual and terminating ground leases.

The research intended to include considering how ground leases have evolved in New Zealand, methods used to assess ground rentals, problems with the current methodology's, linkages with economic factors and insight into practices overseas, to feed into a possible new methodology, if such a thing was possible.

Call for Expressions of Interest

A Call for Expressions of Interest was issued in October 2018 and a large number of responses were received from parties with varying levels of interest. Some were interested in developing the methodology themselves (and some had already done so), others were interested in the findings, some set out their experiences in the area and willingness to assist others, with correspondences being received from a combination of valuers, lessors, lessees and other interested parties from related professions, industries and backgrounds.

It became apparent that this would be a large project and the whole area of ground rent determinations was crying out for exploration and in depth analysis to see if it was possible to discover a market based and straightforward new methodology which was entirely independent, clear and robust.

Workshops

To enable the widest possible professional and industry coverage and exposure to the range of views on the topic evident within the marketplace, it was decided to conduct a series of workshops. The group of responders to the original request were canvassed and the first workshop, held in March 2019

contained valuers only, and included four presentations, two involving draft conceptual methodology and two being commentaries, observations and suggestions.

The second workshop held in November 2019 involved largely industry participants, along with a group of key former and present valuers experienced in the ground rent domain. Three detailed presentations were made, with views, experiences and opinions exchanged in an open and non-judgmental environment, to ensure as many opinions and views, thoughts and suggestions were able to be aired, so that the Scope of the Research would be able to be defined as clearly and comprehensively as possible.

Research Scope

A long interruption then occurred, in respect of confidentiality issues and then Covid-19, which basically delayed the full development of the topic further at the time. Later in 2020 the Scope of the Research Project which was selected to be advanced, and had been presented at the first valuers workshop, was finalised.

The Advanced Draft and Feedback

The initial Draft of the findings was received in August 2022 and the Advanced Draft in October 2022. Following receipt, VEIF sought initial professional feedback by inviting a range of valuers, from different parts of the country, with different specialisations and experience, to review it and provide their comments. This process was undertaken on an anonymous basis. Testers were unaware of the identity of each other and the authors.

This feedback ranged from input and critique from very experienced Ground Rent Valuation experts, and an intellectual academic expert, to feedback from five other “Testers”, who in their careers so far, have had experience with ground rent valuations to varying extents, and hail from cities as well as the provinces and with academic and non-academic backgrounds.

The workshops were conducted on a confidential basis given the controversial nature of the topic and to provide a free and open forum where any and all views were able to be freely expressed.

The Testers and Critiquers comments were thoroughly debated at a third workshop held in November 2022, and have been taken on board by the authors, with various amendments and clarifications to the Draft having been undertaken.

Next steps

As the reader will observe, an enormous volume of material has been researched, considered, analysed and produced in the attached Exposure Draft. Many many months of effort have been invested by the three authors, in an effort to produce a workable, straightforward and sensible new alternative Ground Rent Determination Method for the benefit of the New Zealand Institute of Valuers members and the wider industry.

There remain questions over matters of traditional valuation principles, practices and legal precedents and how these relate to this method, and it is the objective of the authors and VEIF now, for this publication to be aired and debated as widely as possible.

It is to be initially presented on 9 June 2023 at the National Property Conference/IVSC-Wavo Global Valuation Conference 2023 in Christchurch at a technical workshop, then VEIF intend that there will be a 12 month further testing period involving further workshops, seminars and similar forums to enable all interested parties to participate to the maximum extent. Arrangements will be notified on the VEIF website, and also through the Property Institute newsletters and publications.

VEIF would like to extend heartfelt thanks to the three authors for their huge undertaking, understanding well as practicing valuers ourselves, the time and sacrifices involved in undertaking these types of projects for the benefit of all market participants and especially our fellow valuers.

Thanks also to the critiquing experts, and the Testers from all over New Zealand, whose collective participation has been invaluable.

So now it's up to you the readers to consider the paper, participate in the upcoming seminars and provide feedback to the authors directly and to VEIF at: RDV@veif.org.nz

For and on behalf of,
Valuer's Education & Integrity Foundation Inc.

Aidan Young (Chairman),
Research Topic Facilitators:
Gwendoline Callaghan (Project Manager)
with Tony Culav, Phillip Curnow and Aidan Young