

Submission - Paterson Valuation Dunedin
Principal Shane Waldron

Background

In making my submission I would like to background myself. In 1975 I started my studies BAgCom (VFM) Lincoln and once complete I became employed with Lands and Survey covering large farming holdings/business's. This continued through to land development and farm settlement. Higher commercial orientation came through employment with Land Corporation. I moved onto complete a BCom (Otago) and hold ANZIV and SPINZ status in addition to the above qualifications. The last 20 years I have operated my own valuation practice.

I simply provide the above to indicate a prolonged association with this field of work. In this period I have viewed notable changes.

The current Act and new change

In 1948 the Valuers Act came into law and continues to this day with the possibility of new legislation in the near future. New legislation gives an opportunity to cement not only how we act but more so how the industry should operate into the future.

Value of the Industry to the Community and Government

In addressing the above it is important to establish the value of the industry to New Zealand.

In extrapolation of your figures I provide the following:

There are 1230 registered valuers in New Zealand (December 2013).

Valuations/Year being 273,000, this equates to 222 valuations per year/registered valuer. Last year I personally completed 433 valuations, some years I have exceeded 500 and the highest is over 700.

Revenue Turnover

The average cost/valuation is around 600 thus

Revenue Turnover (\$) 273,000 x 600	163,800,000
Less average Operating Cost say 50%	81,900,000

Profit Before Tax	81,900,000
GST Component 15%	12,285,000
Tax 30% (Company Rate)	24,570,000

Note: This does not incorporate employee tax/kiwisaver. In providing these it is clearly obvious that our profession has high value to the community and the government. As a comparison the fine wool industry produces \$100 million per year and covers 1 million hectares. There would be a number of other examples that establish our worth to the nation.

Rateable valuations are 627,000 each year by 50-60 registered valuers 90% by one firm. This could be an industry wide job and could be put out to each firm on a roll by roll bases to better spread the work and revenue to all organisations within the valuation field.

Current Emphasis

The current emphasis is to establish a cost effective new regime that protects consumers and maintains confidence in valuers without unduly impeding competition. This objective would fail if we did not address the following issues.

- Product/Service Differentiation which ties with a truly ethical approach to valuation. Differentiation of a product eg electronic valuations allows competitive advantage which in turn leads to higher pricing and better revenue returns for one specific organization viz State Owned Enterprise.
- The need to establish a level playing field for all valuers operating within the industry into the future. The current situation does not allow for a level playing field especially with clearing house valuations and unethical desk top and electronic valuations.
- The matching of future demand for valuation work with supply of valuers. If demand increases through fair trading then the need for more valuers must take place.
- Adequate incentives for training valuers to enter into the industry on a career basis. These are predominantly financial incentives.
- The breaking down of Linkages and Networks that have so long been an integral part of the valuation process in fact any business process. This is now taking place as a consequence of the institute allowing Clearing Houses to operate and unsatisfactory SOE methods.
- The watering down of a valuation practice which for so long carried goodwill as a component of its value again through production of inferior work by the sole SOE and Clearing Houses.
- The allowance of Monopolization and Oligopolies through state owned enterprises performing unethical valuations such as electronic or desk top and the Clearing House concept. Monopolization and Oligopolies are an illegal process.
- The pricing mechanisms that will come about through monopolization and oligopoly structures will lead to higher pricing which does not protect the consumer. A level playing field leads to more competitive pricing. Surely this is good for society.
- Users of the valuation product/services predominantly lenders have looked at easier ways to assess a security position. State Owned Enterprises provide an unethical service delivery through electronic and desktop valuations. My understanding is that the valuation process should value all improvements unexhausted on the site as at date of valuation. This cannot be achieved unless a visit to the property takes place and improvements are measured and analyzed. This approach is in direct conflict of ethics and protection of the public interest. Case in point, I recently valued a farm by inspection, sales analysis and interpretation of the facts. A second valuer completed a desktop, the difference being \$125,000 below my valuation. My valuation was peer reviewed. This approach has cost beneficiaries of the trust \$125,000.

Note LINZ aim is to protect the public, maintain public confidence, be cost effective and not unduly impede competition in the supply of valuation services. The above points are in direct conflict of LINZ's aim.

Stakeholders/Purpose

The stakeholders as mentioned are financial, property, insurance sectors, govt regulators and academics. The purpose is sale and purchase, mortgage and loan security, rating and compulsory acquisition. The intermediary between both is the valuer, the only person with the knowledge and skill to provide adequate answers to its users. Surely these issues need full protection under the new Act.

Selling of knowledge and expertise that cannot be backed (electronic/desktop) ethically leads to harm within the industry and implicates other valuers professionalism. The government through the new Act should set ethical standards that can be abided by each and everyone in the profession. By having these set in law then prosecution can be used to enforce the ethics. The work that is being completed unethically will be stamped out eg electronic/desktop and therefore the stakeholders will be protected even though it is at a greater/job cost for the consumer.

Governance

There is an old saying "I can't see the forest for the trees". I hope the following expands on this approach.

English Dictionary Definition

Governance	Act, manner, fact or function of governing, sway, control
Govern	Rule with authority, conduct the policy, actions and affairs, either despotically or constitutionally, regulate proceedings of, sway rule influence regulate, determine. Constitute a law, rule, standard or principle.

I consider 'Governance' to be a triangular relationship between the Government Department, Institute and end users of the valuation process predominantly, Banks. In this light it is important to have a separate Board (NZIV) with registered valuers and lay people that deal predominantly with those involved at this level of the industry. Underneath this should be a full time mandatory group that is responsible to the Board. This group serves the Board and deals with policy, law amendment and inappropriate action that harms the industry.

Valuation Specialisation

The valuer, being registered, should be capable of handling all types of work. Working in different areas will increase their knowledge. There is no need for defined specialization. Peer reviewing may be necessary for work that hasn't been done in a specialist area previously. Auditing could be the best policy for this type of arrangement. All valuers should

carry Indemnity Insurance (compulsory) with this being a prerequisite to continuing registration.

Discipline

The complaints received on average/annum is around 28 per year. Putting this into perspective there are 273000 valuations each year and this represents .01% of the total work undertaken yet the cost of this is exceptionally high.

Most Acts define fines at various levels. The Institute needs to categorize each type of complaint into different fine levels within the Act. A subgroup under the Valuer General should assess each complaint and apply it to the Act. An appeal process could be implemented after the imposition of a fine this being handled by a subgroup reporting to the Valuer General whose office would impose the fine as part of its statutory obligation.

Clearing House/Appraisal Management Companies

The Clearing House concept has had a major impact on valuation business within New Zealand. Whilst we accept its aim to eliminate collusion or fraud between borrower and valuer or lender we do not accept its preferential rights to use certain registered valuer within the profession.

The total concept of registration, education, training and discipline appears a farce if such a group is allowed to operate. The continued reinforcement by the banks of the scheme is indicative of an outside party “the banks” controlling the profession. The negatives being a lack of a level playing field within the profession, breaking down linkages and networks, allowance of Monopolies and Oligopolies and possible increase of pricing mechanism.

The Act should address this situation by creating statutory provision allowing for the free flow of commerce between the producer and consumer and negate institutional interference by other parties such as the banks.

Collusion or fraud could be handled within the Act and the methods to handle such could be put in place. Secondly direct reporting under the triangular model Govt/Bank/Valuers Board could take place whereby a bank suspicious of a valuers incorrect action could report it to the Board and the statutory provisions of the act could correctly handle the matter. The Valuer General could impose the correct penalty.

Service Provision

It is currently a certification model rather than a licensing model. There appears no real problems with this synopsis.

Existing Scheme

The existing scheme as in the co-regulatory manner with government and the profession both having regulatory responsibility. The Act creates the Valuers Registration Board and Valuer General controls rating valuations. The Register assists the VRB, it keeps a register processes

the registration, practice certificates, administers the registration exams and has a VRB secretary that lies within LINZ.

It is important that this group remains within the system however its role needs to be widened and further defined. It should incorporate all regulatory provision under the new Act with direct responsibility to the VG within its role. It should continue with VRB matters in a statutory context, additionally it should combine rating valuation work which could be tendered similar to the GETS (Government Electronic Tendering System) on a role by role bases to all valuation practitioners.

Certification Model

The existing certification model is a proven model with public valuer needing to continue. Individuals have been adequately trained in the field of expertise and have only become registered after extensive valuation experience and an exam process. A person holding themselves out as a public valuer is recognition of their merit within society. By indicating they are a public valuer it means that they have attained an acceptable level to provide a service to the public.

Future Funding

By a transfer of regulatory responsibility to a Crown organization the need for funding will become the Crown's responsibility.

Governance Structure

The widening out of the existing Governance structure to accommodate other expertise is imperative to the long term success of the organization. The net should be cast wider to incorporate marketing expertise and financial knowledge as well as an accountant, academic and lawyer. The Boards focus should not merely be on valuers and registered valuers. Rather it should be upon the development, enhancement, improvement and communicative strengths within society in order to increase its profile and brand awareness. Your comments of Independence of the Board from the profession being more apparent to the public is fully supported. A higher level of public transparency and public awareness will enhance the profession. The NZIV should always have a place within society.

New Complaints System

I am in agreement of the proposed complaints system. The old system is relatively draconian.

Registered Public Valuer

I still support the term Registered Public Valuer and the method under which one gains this. I consider it has a good brand identification to the public. For ease of management a 'statutory declaration' appears the best option annually.

Ethical and Practice Standards

Ethical and practice standards I consider should be controlled by the Board. The act has the power to change or alter their specifications at any time. It is important that the NZIV not be disestablished rather the new Act should mould itself around this organization structure. If

the NZIV were disestablished I consider it would lose its total identity within society. This society has been in existence now over 100 years and should continue into the future.

Conclusions

There are a number of conclusions in my submission. These are as follows:

There is a need for change in order that the Valuation Professionl is adequately placed to be successful into the future. It is a worthy organization both to society and the government this is measured by its revenue generating ability and tax provision to the country. It needs to enter the future with a focus on spreading the work amongst all valuers so that the profession can grow in numbers of participants and benefit society.

The current dilution of a truly ethical approach to valuation especially by the sole SOE (State Owned Enterprise) has considerably harmed the industry and users of the valuation product. The stamping out of these inferior product/service methods should be undertaken through the new Act. This measure will see benefits to society, improve linkage and networks with other professions prevent Monopoly and Oligopoly situations and retain competitive pricing mechanisms.

Stakeholder protection is important and this comes about through utilization of skills and knowledge of the valuer. Proper Governance aligned with the ability to govern properly into the future is the best option. There is a need for a triangular approach whereby our governance deals with the Government (LINZ) and the Banks this being at a Board level. Underneath this level is a mandatory group, responsible to the Board, it dealing with policy ethics etc.

Specialization should not take place as work in all spectrums of the valuation profession allows the valuer to improve his knowledge over a wider area of work. Indemnity is a compulsory matter. Discipline should be measured in terms of its financial worth it being best under regulation through a fine system. The current costs re discipline are prohibitive to Institute members. It is best managed by a subgroup within the Valuer General Office as it ties closely with the regulatory provisions.

Clearing Houses have effectively allowed the banks to control the industry. This process under regulation should be broken down. If there is a problem with a valuer, under the triangular model the Valuers Institute can be informed and the regulatory process can be enacted.

Certification should continue and public valuer needs to remain into the future.

Governance needs to be more diversified to accommodate a greater level of expertise in order that the organization is promoted more to the public.

Ethical and practice standards are a Board issue controlled by a subgroup reporting to the Board. However under statute the Board needs far greater power to prevent valuations being

undermined. It is very important to retain the NZIV, if this is fragmented the whole organization will lose its position in society.

My submission does not directly answer your question sheet. Hopefully it addresses the issues and provides some direction to the future of the valuation industry.

A handwritten signature in blue ink, appearing to read 'Shane Waldron', is centered on the page.

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