



A Guide to Commercial and Industrial Investment



Introduction

Whalan David Murray Ltd MREINZ has as its objective to create an opportunity for Vendors and Landlords that achieves the best result for their property and delivering this service in a manner that is professional and enjoyable.

People who are therefore considering investing in commercial property must have a working understanding of the subject.

The topics covered in this booklet are the ones you are most likely to deal with. It is important to ask if you require further information or explanation of the terms used.

Enclosed in this booklet is a 'checklist'. If at any stage you are considering the purchase of a commercial property, use the 'checklist' to assist you in making a decision.

A 'Glossary of Terms' is also enclosed for your perusal. It is quite comprehensive and should be referred to when necessary. Do not be put off by the number of words and phrases – even experienced property investors would be baffled by some of them.

Sound property investment is based on:

- a. Sound Research
- b. Sound Advice
- c. Sound Judgment

Members of The Bayleys' Canterbury Commercial Team, are available to assist should you require further information. Do not hesitate to ask.



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The Real Estate Agent

The Responsibilities between AGENT and PRINCIPAL

1. The Agent should display any special skill and knowledge he possesses.
2. He must take responsibility for his Principal's property, such as deposits, security of property and effective communication.
3. The Agent must disclose to his Principal anything likely to influence him (the Vendor) in achieving a contract.
4. He must not take a secret commission, that is, a payment also from a Purchaser, without the Principal's/Vendor's knowledge. Such action could jeopardize the contract, let alone any claim for commission.
5. The Agent should not become a party to a transaction against his Principal without the Principal's consent.
6. He must not delegate his authority except in minor matters, without his Principal's consent.
7. He will communicate with his Principal on a regular basis advising him of all feedback, good and bad, keeping those channels of communication open. The Agent should keep telling the Vendor what is happening on every inspection or after any registration of interest.

There is reliance by the Vendor upon skill, care and competence where the Vendor may then act, based on that Agent's skill, expertise, and information.

- By accepting the agency it imposes on the Agent an obligation of providing such skill and expertise.
- The Agent should professionally review and update the price prior to the beginning of marketing.
- If the authorized asking price varies substantially from the fair market value it is the duty of the Agent to advise the Vendor.
- The Agent should suggest ways of marketing the property, e.g. flyers, radio, TV, newspapers, target advertising, and assist the Vendor/Landlord to make the best marketing decision available within the established marketing budget.
- Immediately communicate any offer/counter offer to the Vendor.

The Responsibilities between AGENT and PURCHASER

All matters discussed must remain confidential!

- To immediately communicate to a Purchaser any response of a Vendor to an offer.
- The Agent should have a good understanding of the property he is selling/leasing.
- The Agent must be fair and just too all parties in negotiations, in preparation and execution of agreements.
- As an Agent may develop a close relationship with a Purchaser over a period of time, there is an even greater need for self-discipline by the Agent in remembering that the Vendor is paying his fee. Hence the need for absolute fidelity.
- The Agent should follow up Prospects or Purchasers and not neglect those who have not bought.
- The Agent will want as precise a picture of the Purchaser's needs as possible. This helps the agent at the time of looking for an investment, at the time of making an offer, and during negotiation with the Vendor.
- If the Agent is in any doubt about the Purchaser's capacity to conclude the contract, the agent should contact that Purchaser's Solicitors or Accountants before any agreements are signed.

Multiple Offers

This is not uncommon and should be handled in the following manner. All parties who would like to make an offer should be given a deadline to present their best offers. The Vendor should then decide which offer to accept. No parties should be advised of the content of another offer.

Need to Present an Offer

For an agreement to be enforceable it must be in writing. Always put pen to paper so that all negotiations may be recorded.

Service

Nowadays it is becoming common to receive an information brochure on a property, which record relevant details such as rates, insurance, lease details, history of the ownership, Certificate of Title, Government Valuation, and any comparable sales data.

- If appropriate the Agent should go with a Purchaser to the local authorities and discuss matters of town planning or traffic control details, which may affect the subject property.
- The Agent should make sure all overseas buyers are quite clear about the content of an offer and even enlist the services of a translator when necessary.

Importance of Instructing your Agent Correctly

Be specific and keep a record of property previously inspected, such as in a notebook. This overcomes a great deal of wasted time.

Do the Homework and establish if the building and its proposed use comply with the district plan, Town Planning, and Resource Management requirements. Prior to any instructions to an Agent analyse all option available to you.

Accessing Information

1. REINZ Property Statistics

This mainly related to residential property and is updated by members of REINZ every month and includes:

Address, Sales Price, Asking Price, Date Listed, G.V., Property Type, Number of Bedrooms, Finance available via Trust/Trading bank etc

2. Statistics Department NZ

To gather information such as trends relating to tourism etc, the Department can provide you with comparative data on a regional/national basis. This is important with respect to shopping trends and they can provide an overall picture of the number of permits being issued on a national and regional basis.

3. City Council Information

Sometimes it will be beneficial to pay the fee that the Council now charge and discuss areas of interest with them as to their Town Planning intentions. This will give you a clear picture of present/future development in a specific area and the effect of such a development in a specific area. The informed Agent should have some detail at hand unless the plans mooted for a local development are totally confidential. The Council can give an indication as to traffic/foot counts if the building you are considering purchasing needs to be in a preferred high traffic/foot count location. They can also tell where most building permits are being granted either residentially or commercially.

4. The Land Transfer Office

(In major centres) This office can provide you with a Certificate of Title for a property. They can also provide you with details of any previous transfer, i.e. what the property sold for at any point in its history, for whom caveats are registered, and the basic details of mortgages relating to the property.

5. In House Data

Over the years real estate agencies build up significant information relating to various properties either from real estate sales, valuation, or appraisals. Therefore it is not uncommon when approached about a specific property to find it is already on file.

6. Quotable Value and other Web Sites

This is a commercial service collated by QV for its members, showing property details for retail/commercial leasing and property sales information and recent details of previous transactions in the area.

Summary

The real estate industry is essentially a performance related business. The professional agent will be working hard for the Vendor and Purchaser and will be endeavouring to achieve a mutually acceptable deal to both parties. Sometimes it is difficult to educate the Vendors of the property trends, especially those downwards, and the very least that can be done for the Vendor by the Agent is to remain in close association with him and feed all relevant data of a comparable nature so that a carefully considered response may be given when he is presented with an offer.

Over the last years there has been a significant increase in the number of sales persons able to help. The important thing to remember for

both Purchasers and Vendors is that they should be provided with very good service and information, and they should carefully select the services of an agency with which they feel comfortable and with whom they can relate.

The Banker

The matters covered in this section can be grouped as:

- Choosing a Bank (experience and consistency)
- Importance of Early Discussions with the Bank
- Loan Structures
- Minimum Equity and Guarantee Requirements
- Importance of Tenant Strength and Lease

1. Choosing a Bank

The key things to consider when choosing a bank are:

- The banks experience in the industry (In this case commercial property)
- Consistency in decision, guidelines, and cost

Beware of the Bank or Banker that suddenly changes their marketing to a new 'you beaut' product or market. The same with sudden 'one-off' price discounts. You need a Bank that won't change its criteria during your negotiations and is constantly offering attractive interest rates and fees but not necessarily the cheapest.

- **Flexibility:** Items here include no or minimal penalty for early repayment and consideration given to changing circumstances.
- **Personality:** Bankers are people and if you can relate to and respect the individual you are dealing with and the bank stacks up then stay with that person. Alternatively, if you find it difficult to communicate or accept the Banker's attitude, then find a new one.

When choosing your bank, talk to people who have recently completed similar transactions and see who they used and how they found them.

- Obtain more than one quote. This enables you to assess whether you are offered a reasonable deal and keeps the Banks competitive.

2. Importance of Early Discussions with the Bank

This is crucial as it provides you with an idea/indication of what market value range you are able to look in.

It will also assist you in choosing a valuer as Banks have a list of preferred valuers (which changes from time to time) as they address the issues we require. It will also assist the Real Estate Consultants, as you will know what price range you can consider.

In early discussions you need to provide the Bank with:

- Your cash contribution
- Personal Statement of Assets and Liabilities/income and outgoings.
- Types of proposals you are considering
- Valuation

The Bank can then give you an idea of the cost, structure, and minimum requirements they have.

3. Loan Structures

The days of open-minded interest only mortgages on commercial property investments are over. Generally the maximum interest considered is 2-3 years.

Bankers and clients are looking to repay debt over a period of time.

The terms of loans are to a maximum of 10 years or the remaining term of the lease which ever is shorter.

Options are available for fixed principal repayments or constant payment of interest and principal.

Initial interest only term of say 2-3 years would be considered when debt levels are reasonably low or the remaining term of the lease is long.

4. Minimum Equity and Guarantee Requirements

Generally Bankers are looking for a cash contribution for each proposal. The amount depends on the total package, lease, or tenant strength along with the individual applicant's personal position. As a guide 30-40% would be normal.

30% is reserved for the prime tenant and lease structured deals.

You also need to be aware of a guarantee requirement. Where the purchase of Commercial Property is in the name of a Trust or Company then Banks will be looking for the personal guarantee of the beneficiaries or shareholders.

5. Importance of Tenant Strength and Lease

Bankers are primarily concerned with risk management. Firstly the borrowers, then the source of income, and finally the security.

In a property investment the source of income is the tenant and we cannot overstate how important the tenant is.

The valuer will comment on how the tenant and remaining term of the lease has a major effect on the final value.

If we take one step further and suggest it affects the final value it may very well be the decider on a loan approval.

Commercial Property with short-term tenancies requires special attention/mention. In many cases the tenant may have a right of renewal but will it be exercised and at what rate? This is where a possible restructure of the lease may be favourable.

A poor tenant in a long lease also needs urgent attention.

Obviously there will be exceptions but generally tenant and lease strength are paramount.

Registered Public Valuer

The purposed of this section is to give advice in regard to:

- Selection of valuer

- What to expect of a valuer's report
- Potential for renegotiation of leases and therefore enduring an owner has security of cashflow
- Advantages of spreading risk
- Cost of holding vacant buildings

To summarise:

1. Selection of Valuer

As has occurred in all professions over the past 10 years, practitioners have specialised in particular fields associated with the discipline they have been trained in. As alluded to in the Solicitor's section it is not appropriate to instruct a professional who has limited background or a firm which has limited experience in the commercial and industrial property investment market.

If your 'heart' is playing up, do you go to any doctor/specialist in the yellow pages? No, you are referred to a heart specialist, and this analogy should be applied when considering appointing a valuer or other professionals when considering entering into the commercial and industrial property investment sector.

Therefore, you should undertake research and obtain advice from experienced owners or your Solicitor before appointing a Valuer. Furthermore, many lending institutions have a list of approved valuers/firms. They have seen it necessary to formulate such a list, as they are fully aware that particular valuation firms have more expertise in the commercial/industrial valuation field compared with the normal residential valuation practice. When they are relying on professional advice they wish to be satisfied that the advice is being received from a person who is competent in that particular field of valuation.

A Commercial Property Valuer would not contemplate or accept an instruction to value a high country farm. If asked to do so the Valuer should refer that person to another Valuer experienced in valuing such property.

Correspondingly, when instructing a Valuer you should:

- Obtain advice whether the particular Valuer has a wide experience in the industrial/commercial valuation field.

- Consult your intending lender/bank to ensure that the Valuer is acceptable to them.
- Discuss with the appointed Valuer an appropriate brief.

2. What to expect in a Valuer's Report

In a valuation report on commercial and industrial property the report should provide you with the details including:

- **Locality** – Where the property is situated and demand for property of this type in this location and the quality of the surrounding developments.
- **Local Authority/Zoning**
- **Town Planning** – Ordinances outlining what is permitted to be developed on the site if it was vacant thereby giving the client knowledge of possible future redevelopment opportunities.
- **Legal Description** – Summary of the Certificate of Title and appropriate easements/covenants benefiting or affecting the property.
- **Government Valuation** – Advice whether the valuation is realistic and if not, why not.
- **Lease/Occupancy Details** – A summary of the existing lease(s) including who is responsible for outgoings, commencement date of the lease, term, review dates and annual rental. The report should state whether the lease has been sighted or where the information was obtained from.
- **Improvements Description** – A report should give details of the improvements including the construction, floor area, deferred maintenance, including items which may require immediate attention, and who owns various components within the building, including partitioning, floor coverings, plant (air conditioning) and sprinklers.
- **Valuation Calculations and General** – The report should provide detailed valuation calculations including depreciated building cost plus current market value of the land (summation valuation), economic assessment outlining the current market rent under a willing Lessee/willing Lessor scenario, economic valuation calculation adopting market research yield/capitalisation rate, conclusion and general comments/advice regarding whether the contract lease reflects

market, the quality of the lease and detailed sales outlining analysed yields.

3. Potential for Renegotiation Leases

As a Valuer, and is acknowledged in the property investment industry, the most important aspect to consider when purchasing a property investment is the quality of the Lessee, the length of tenure remaining and whether the lease/rent reflects the market.

Since the bullish property market of 1986/87 rent levels have reduced and in many instances there are Lessees who are paying above market rents with their leases due to expire in 1-2 years. It is an ideal opportunity for an intending Purchaser to renegotiate the lease by giving the Lessee a reduction in rental (bringing the rent back to market) on the basis that Lessee signs a new lease for a period of say six years or more.

This gives the Owner/Investor security of tenure, future capital appreciation due to the new level of rental reflecting market. Any slight improvement in the market will be reflected at the time of the next rent review and more than likely the adoption of a slightly lower capitalisation rate to reflect less risk due to the Lessee having a contract requiring continued occupation for a longer length of time.

4. Spreading Risks

However, this again is dependent to a large degree on the quality of the Lessee. If that property of 1,000 – 1,500 square metres is leased to a company, which has an excellent trading record, the lease provides personal guarantees from the appropriate directors and meets all other criteria relating to property purchase (therefore having minimal downside risk). This will provide you with an excellent long-term property investment.

The only reservation is that one day the Lessee may be a full subsidiary to one of the top listed public companies. The parent company sells XYZ Company to a company of considerably lower stature or financial backing, thus resulting in where you once had a sound Lessee, after they have disposed of this business to a third party, the quality of the Lessee may be considerably different to what you initially purchased.

5. Cost of Holding Vacant Buildings

The cost to an owner of holding a building with no income being received is considerable. What do you think is the cost to you if you have a building which is vacant for one year?

Most people would likely say rates, insurance premiums and any mortgage payments, but in fact the cost to the owner is far in excess of this amount and it should include:

- Rates
- Insurance
- Interest Costs
- Opportunity Costs (redevelopment of capital to an earning producing investments)
- Legal Fees for the drafting of a new lease when a Tenant is obtained
- Real Estate costs associated with obtaining an alternative Lessee
- Marketing Costs

Summary

- **Selection of Valuer**

Consult a Valuer who specialises in the industrial and commercial valuation market and consult with your intending lending institution and Solicitor to ensure that Valuer is accepted by the parties.
- **Valuer's Report**

Brief the Valuer to ensure there is no misunderstanding as to what you anticipate will be contained within the report. Ensure you receive advice as to whether the existing rental reflects market and comments regarding their opinion of the property investment, (Would the Valuer if he was in a position to spend \$300,000 purchase the property?).
- **Leases**

The most important aspect to consider before entering into a contract is the quality of the Lessee and tenure remaining in the lease. Therefore consideration should be given to possibly renegotiating the leases.

- **Spreading Risks**

What is your philosophy as a property owner – do you wish to own four small units or one large unit? The cost of managing one property is less than four but there is the risk that if that sole Tenant fails, the cost of holding the property until an alternative Lessee is found is considerable.

Property Management

Importance of Sound Property Management

There are many cases of properties that are not well managed. Invariable these are properties owned as an investment by individuals who have no experience in this field.

Initially it is easy for the rent to be paid by automatic payment and for you to continue receiving that rent every month, but at some stage there will be new leases to negotiate, maintenance to be undertaken (who is responsible – Lessee or Lessor), appropriate financial records to be maintained for accounting purposes and general overseeing of the property to ensure the investment is maintained at a level which will ensure future capital appreciation and therefore reduce the amount of expenditure that may have been required if the property is neglected.

Correct property management can advise you of tax advantage, where you gain greater depreciation benefits by aggregating the land and buildings content and the plant/fittings content within a building (the value determined for plant and fittings being depreciated at a higher rate than the buildings), appropriate lease restructuring if/when required and general professional property advice. This gives the Owner the opportunity to have a sound property investment without undue worry.

Correct property management is in today's market more appropriate than when market conditions provide for their being a greater number of potential Lessees than properties available to lease, if the property is well managed it is likely to lease before one which is not.

In general terms property management –

- Ensures the Owner of appropriate market rent increases and levels of income.

- Advises Owners when it is necessary to consider refurbishment or disposal of a property investment.
- Maintains the building and organises appropriate contracts to be let for the likes of common area cleaning, payment of rates and invoicing of Lessees.
- Establishing appropriate professional dialogue between Lessee and Lessor to ensure a harmonious business relationship.
- Generally acts in the best interest of the property and Owner.

Summary

Do you consider that you have enough experience to manage a property or do you consider it appropriate to have the property managed professionally? If you managed the property yourself there will still be costs incurred, Solicitors and Accountants, which in some instances may be absorbed within the management fee paid particularly at the time of the lease and rent review negotiations.

Solicitor

1. Choosing a Solicitor

In the context of commercial property transactions, it is essential to involve a Solicitor who has had sufficient experience in the commercial area. As in all professions, legal advisors tend to deal in specific areas. There are some legal advisors, who may have had little, if any experience in the commercial area. The Solicitor must have the knowledge and experience to prepare an agreement for Sale and Purchase, if this has not already been prepared by the Real Estate Agent, incorporating appropriate conditions to protect the Buyer, addressing in particular the issues of finance conditions, GST, and other taxation matters. The Solicitor must also consider the leases affecting the property, the investigation of title including zoning and town planning matters, consideration of the relevant building laws, and if applicable, a recommendation as to a suitable financier.

2. Ownership

There are many different modes by which property can be owned and the mode of ownership will be determined by the Purchaser after receiving advice from his advisors. The advice to be given by the Solicitor will usually involve a total consideration of the clients

circumstances such as estate planning, long term planning, investment matters, and family matters, so as to endure the most appropriate form of ownership.

In general, the following forms of ownership are possible:

- a) **Sole Ownership** by the Purchaser.
- b) **Joint Ownership** by the Purchaser with his spouse, members of his family, family trust, family company or other party. The essential feature of Joint Ownership is that upon the death or dissolution (in the case of a company or trust) of one party, the whole of the property transfers to the survivor. In the situation of a husband and wife owning a property jointly, this is often undesirable because it may compound the survivor's liability for estate duty.
- c) **Ownership in Common.** Property may be owned as to shares either as to one half or as to any other shares the parties may decide. It is possible for one party to deal with his own share by way of will or transfer. Ownership in Common is often adopted when purchasing a property because of the long-term benefits with estate planning.
- d) **Trusts.** Family Trusts are established to transfer assets out of a person's ownership because the trust is a legal entity in its own right. It may be desirable for a trust to hold property, or in common with another trust set up for the benefit of the other spouse. The use of trusts has particular advantages in the area of estate and financial planning and asset protection.
- e) **Partnership.** A partnership may be implied from the land holding interests of each party. Quite often a partnership agreement will be entered into by the owners of the land setting out the shares of profits and losses and other practical matters which are in the partnership's interest to determine so as to avoid the possibility of any future disputes.
- f) **Companies.** Companies are often employed where there are a number of people wishing to invest in a commercial building.

3. Unit Titles

Most established buildings will have fee simple (freehold) titles but in modern developments, each building and the land surrounding that building may have a 'unit title'. This is a title giving the owner exclusive use of the building, the land that relates to the building, and often the use of other land in common with other Landowners e.g. driveways etc. The title exists pursuant to the Unit Titles Act and the rights and obligations of all the Owners in the complex are governed by a Body Corporate which is a committee which deals with the management of matters which affect the complex as a whole – e.g. insurance, rates, painting, gardening, maintenance of sealed areas, signs, etc. Generally the most onerous task for a Body Corporate member is that the Secretary who may be one of the unit holders but who is more usually a Property Manager or Accountant. He is responsible for carrying out the wishes of the committee in arranging insurance, valuations etc.

4. Agreement for Sale and Purchase

Real Estate Agents and Solicitors frequently consult in the preparation of agreements to purchase commercial properties. Agreements are usually prepared on a form devised by both the Real Estate Institute of New Zealand and the New Zealand Law Society. This form has been upgraded in recent years and is regarded as a document, which fairly represents the interests of both the Vendor and Purchaser. It is important however that the document be completed by a skilled person to ensure that the parties' agreement is properly recorded and that any special conditions, e.g. as to financing, tenancy, etc are properly completed. In recent years taxation aspects of property transactions have had particular significance. It is important to ensure that the parties to an agreement understand the impact and ramifications of GST and taxation accrual rules in particular.

5. Types of Leases

There are as many varieties of lease as there are Landlords and Solicitors who prepare leases for them. In law, there is no specific standard type of lease and the form of the lease for a particular building essentially is that which can be negotiated between the Landlord and the first Tenant. However, in recent years, leases have tended to become standardised and some of the leases commonly in operation in commercial buildings are:

- i) BOMA form of lease

- ii) A form of lease prepared by the Auckland District Law Society (second edition 1989)
- iii) Forms published by companies specialising in legal documentation (e.g. Avon)

Such leases provide, in general, the following:

- The description of the premises
- Car Parking
- The length of term of the lease
- The starting date
- Rights for further terms of the lease
- Initial annual rent and when the rent is to be reviewed
- The share of outgoings to be paid by the Tenant
- Interest on arrears payable by the Tenant
- Use of the premises
- Outgoings payable by the Tenant, e.g.
 - Rates
 - Other Local Authority charges
 - Water Rates
 - Electricity
 - Telephone
 - Rubbish Collection
 - New Zealand Fire Service charges
 - Maintenance of Fire Detection and Fire Fighting Equipment
 - Insurance Premiums on the Building
 - Service Contracts for Air Conditioning, Lifts and other Building Services
 - Cleaning



Checklist

1. What is your objective when purchasing commercial property? Capital gain, income or a mix of income, and capital gain?
2. What degree of risk are you prepared to accept?
3. What type of commercial property can you afford to assist in reaching your objective?
4. What equity do you have available?
5. How much debt are you prepared to accept? Have a preliminary discussion with a Bank.
6. Therefore what property value are you looking for?

Preliminary Investigation

7. Do you have a basic understanding of commercial real estate?
8. Have you done any basic market research so that you have and understanding of present values, e.g.:
 - a) Newspaper Advertising and Sales Reports
 - b) Valuation Data
 - c) Property Magazines
 - d) Web sites for Real Estate Information

Real Estate Agent

9. Who is the specialist Real Estate Agents operating in your area of interest?
10. Of the above, list which ones, probably two or three, you feel most comfortable dealing with. Ask around other professionals in whom you trust.
11. At this stage, approach the short list of Real Estate Agents and be very specific in your instructions outlining:
 - a) The type of property desired e.g. Retail, Industrial or Office.

- b) The maximum value of any property you are prepared to consider.
- c) The preferred location of the property.
- d) The return you expect.
- e) The structure of lease you require.

The more specific you are with the Real Estate Agents you are dealing with, the more motivated they will be to assist you.

12. Are the two or three Real Estate Agents performing to your expectations? If not, why?
13. If an agent is not giving an acceptable service firstly discuss the matter with him and if the response is unsatisfactory approach another agent.
14. Is the agent providing you with comprehensive information on properties of particular interest?
 - a) Copy of the Certificate of Title
 - b) Brief History of the Property
 - c) Details of Construction
 - d) Possibly Registered Valuer's Report
 - e) Copy of Lease(s)
 - f) Details of Tenant(s) – to gauge financial strength
 - g) Government Valuation and Rate Details
 - h) Details of Other Sales in the Area
15. If a particular property is of interest, check to see if there is any special relationship between the Developer, Owner, Real Estate Agent and Tenant(s). This is to ensure the lease(s) properly reflect the market.
16. Get written advice on what inducements (if any), were paid to the Tenant(s). Your valuer will want to know this. If necessary and particularly in the case of multi-tenancy situations obtain the financial statements with respect to the property for the previous years.

Registered Public Valuer

17. Ask around other property professionals for a small list of Valuers experienced in the type of property you are interested in. Discuss this list with your Banker.
18. Ask the selected Valuer for an indication of the fee he will require to prepare a report on the property. It helps a lot if you have the details set out in (14) above. With the property details available, the Valuer should be able to give you an indicative opinion of the property.

19. If satisfied with the Valuer, and you are still interested in the property, advise the Real Estate Agent you wish to enter in a 'conditional contract' to purchase the property. The contract should be conditional on a satisfactory Valuer's report, Solicitor's approval, and that you can arrange mortgage finance acceptable to yourself. The offer should be checked by your Solicitor prior to the agent presenting it to the Vendor.
20. When the Vendor (seller) has entered into a conditional contract with you, instruct the Valuer to prepare a report.

Solicitor

21. On receiving the Valuer's report forward it, and a copy of the lease, to your Solicitor.

Banker

22. When the Solicitor advises you that he is satisfied with the legal aspects of the property and lease(s), draw up a short list (probably two or three) of banks you wish to approach for mortgage finance. Discuss this with other property professionals.
23. When submitting proposals to Banks, ensure that the following information is included:
 - a) Personal Statements of Assets & Liabilities, Income and Outgoings
 - b) Evidence of equity you will be putting into the property
 - c) 'Conditional Contract' – Sale & Purchase Agreement
 - d) Registered Valuer's Report
 - e) Letter from Solicitor indicating his approval
 - f) Details of Tenant(s) and possibility Financial Statements
24. The Banks, provided they are prepared to mortgage the property should have a loan offer back to you within a week. The more information that you supply to the Bank in the first instance will help to speed up the process.
25. When you receive the loan offers from the Banks check carefully the following points:
 - a) Actual Interest Rates
 - b) Term of Loan
 - c) Fees
 - d) Penalty for Early Repayment
 - e) Securities required other than the property

f) Principal repayments required

All the previous points are negotiable.

- 26.** If there are any parts of the loan offers that you are not satisfied with discuss them with the Banks concerned.
- 27.** Select the loan offer that you will accept and advise all Banks of your decision.
- 28.** Advise your Solicitor and the Real Estate Agent that you wish to confirm the contract and purchase the property. The Real Estate Agent will require a deposit.
- 29.** Your Solicitor will largely handle matters from this stage.
- 30.** At settlement date communicate with the Tenant(s). Never forget that the Tenant is the foundation of your property investment. Treat him with respect and fairness.



Definitions & Terms

Adjudicate.....	act as judge
Ad valorem.....	according to value
Added Value.....	is the amount by which the improvements enhance the value of the land
Affidavit.....	a written declaration on oath
Age Life Concept.....	is an assumption that improvements have an estimated life
Amend.....	alter
Amortize.....	gradually wrote off (reduce)
Annex.....	add or append, take without right
Annuity.....	an annual income paid for a term of year(s)
Apportion.....	share
Appraise.....	estimate of value, normally by a Real Estate Agent
Arbitrate.....	judge
Assess.....	estimate of value
Bona Fide.....	in good faith
Breach.....	breaking of rule, duty, or contract
Body Corporate.....	committee of Owner's of Unit Title properties
Building Permit.....	document issued by local authority allowing construction or further improvements to property
Building Line.....	a line creating an area in relation to a section within which no building can be constructed without special permission
Buyers Market.....	when the number of sellers exceeds buyers
Capitalisation Rate.....	commonly used to express in percentage terms the annual Nett income flow divided by the property value. The word 'yield' is also commonly used instead of 'cap rate'
Caveat.....	a formal document protecting an interest upon a title to land
Caveat Emptor.....	let the buyer beware
Certificate of Title (C/T).....	legal document obtained from the land Information New Zealand recording

	ownership of a property and restrictions affecting the property
Chattels	unfixed items within a property
Common Area	area used by more than one occupier
Compliance	agreeing or acting as directed
Compensation	payment for loss or damage
Condemnation Notice	an instruction issued by a local body forbidding use of premises until certain work is done
Consent	approval
Conditional	provided certain terms are agreed to
Contemporaneous	occurring at the same time
Conveyancing	legal transfer of property
Covenant	a restriction on the title of the land to retain certain rights
Default	to fail to meet an obligation
Deposited Plan (DP)	a detailed subdivision plan obtained from the Department of Survey and Land Information
Defer	delay
Depreciate	loss of value over time
Disclaim	not to be responsible for
Develop	to enhance the value of the property
Development Control	town planning control over land use
Disclosure	providing full information
Distrain	seizure of goods as a method of enforcing payment
Diminution (of value)	lessening
Due Diligence	thorough investigation
Easement	a legal right to the benefit or use of another's land
Encumber	to burden (e.g. mortgage)
Encroach	intrude on another property
Equitable Interest	e.g. as a beneficiary under a trust where the legal estate is vested in a trustee
Estate in Fee Simple	Gives the holder of this land tenure the exclusive use and enjoyment of the land against all others
Excessive Improvements	any improvements to a property where the cost exceeds the realisable value – over development
Fixture	articles affixed to and taken as part of real estate

Forfeit	loss or surrender
Force Majeure	circumstances beyond one's control
Frontage	is the street frontage of a property and important element in land value
Guarantee	to provide addition support
Gross	total
Highest and Best Use	is a valuation concept that all real estate should be on the basis of realisation for optimum use
Improvement	additional to land
Increment	an increase in worth
Inducement	a consideration calculated to encourage a party to enter into an agreement
Injurious Affection	loss of value of property
Internal Land	land without street frontage
Intra Vires	within our powers
Leasehold	land for the use of which a ground rent is paid to the holder of the fee simple
Legal Description	of land – Certificate of Title reference, Deposit Plan number, Lot number
Lessee	tenant
Lessor	landlord and/or owner
License	related to real estate where the occupancy does not give the licensee (occupier) exclusive possession
Life Estate	is an interest in property for the period of a person's life
Merger	an operation of law which extinguishes a right by reason with its coinciding with another and greater right of the same person e.g. when life tenant becomes owner of a fee simple
Moratorium	postponed period of time
Mortgage	is the charging of property as security until money is repaid
Mortgagee	lender
Mortgagor	borrower
Mutatis Mutandis	with due alteration of details (in comparing cases)

Negligence	wilful neglect
Obsolescence	becoming less desirable – due to e.g. style and changing market expectations
Option	a right to purchase or lease, usually for a limited time
Ordinance	authoritative direction usually issued by local authorities in connection with building and the use of land
Paper Road	a road shown on a plan which does not physically exist
Pedestrian Count	used often in retail areas to gauge on a regular bases trends in shopping patterns
Preamble	preliminary written statement
Plant and Fittings	if not fixed to the premises or so fixed that they may be removed without structural damage
Prejudice (without)	without detriment to or to any existing right to claim
Quantity Survey	A detailed schedule of the materials necessary to construct a building
REINZ	Real Estate Institute of New Zealand
Registrable Interest	a charge or encumbrance one is legally entitled to register on a title
Remedy	repair damage or make good loss incurred
Reinstatement	is the cost of replacing an asset with a new one
Repudiate	deny, refusal to recognise or obey
Rescind	abrogate, revoke, cancel
Revoke	withdraw or cancel
Requisition	Condition
Rights of Way	tight of passage over the land of another
Scarcity Worth	extra paid above value because of scarcity
Sever	to break away or part with
Speculate	to trade with the intention of making a profit without improving a property
Statutory Value	is the value according to the provisions of a particular statutes definition

Stratum Title..... is the estate covering portion of a building
Summation.....the total of the various parts

Tenancy in Common..... unity of possession with defined shares
Town Planning..... is the art and science of controlling and
planning the uses within a geographical
area

Unconditional..... no further conditions to be met e.g. an
unconditional contract is one where both
parties have confirmed to proceed with the
transaction

Valuation..... an estimation of worth
Valuer..... generally recognised as a qualified person
to estimate real estate values. The
professional body is the Valuers Institute

Vendor.....seller

Zoning..... a town planning method of controlling land
use in localities