



NEW BUILDING PROGRESS AND COMPLETION REPORTS

In an earlier newsletter we discussed valuations for buildings to be constructed and progress reports. Feedback has highlighted some aspects of the process that may be of interest to those who are looking to build.

As the building contract will be a significant amount of money over an extended period the builder needs to be paid on a regular basis to allow him to maintain a workable cash flow and to meet his obligations to suppliers and sub-contractors. 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).

When a new home owner may already be funding the best part of \$200,000 for the land, funding building progress payments is important. In light of the recent decline in property prices, lenders . banks in particular . 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 completing progress valuations in the past, valuers did a final inspection and issued a completion certificate based on the project being completed in accordance with initial valuation, without the more expensive process of updating the valuation.

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 Appraisal 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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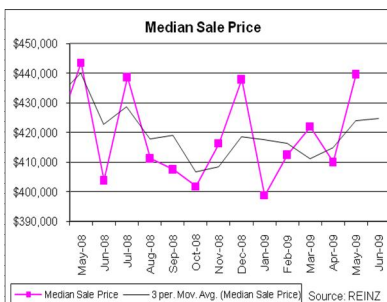
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IN SPITE OF THE COST OF LIVING, IT'S STILL POPULAR.
LAURENCE J. PETER (1919 - 1988)

MARKET COMMENTARY

Green shoots are showing in the residential property market, growing quickly in some areas, slowly in others. Generally Wellington is doing better than the national average and the middle price ranges in areas closer to the city centres are doing better than outlying areas.

The QV figures measure the change in the past 12 months and tend to muffle the immediate changes. The change in direction and the fact it is heading in the right direction is the most important feature of the graph.

Autumn and winter months are traditionally when the market is at its slowest, indicated by the decline in sales and the increase in the time to sell. Last year, the decline was all year with no seasonal trends. This year the market has picked up and started to follow the normal seasonal cycle with the number of sales above last year's levels but well below the average for this time of year. This is due in part to the shortage of listings and a lack of seller confidence in the current environment. Buyers have returned to the market showing very strong interest in some areas. The reduction of the REINZ days to sell figures has now dropped back to near the long term average. However this measure usually increases at this time of year. This is a very strong indication of the increase in demand from buyers and the shortage of listings. Variation in sale times between areas is very noticeable with some areas now less than the average for May. In these areas we are hearing of high numbers of offers and aggressive bidding for some properties.

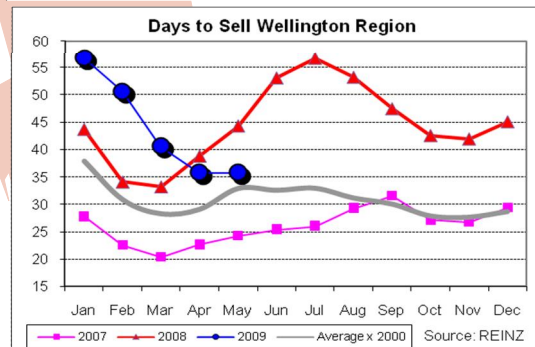
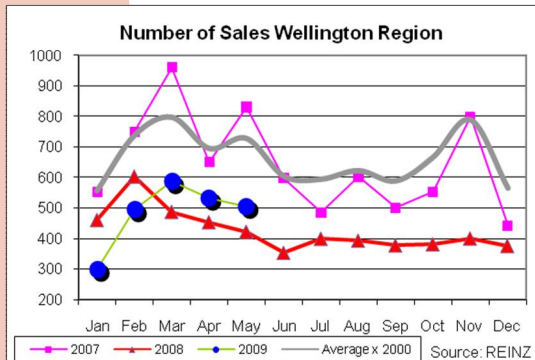
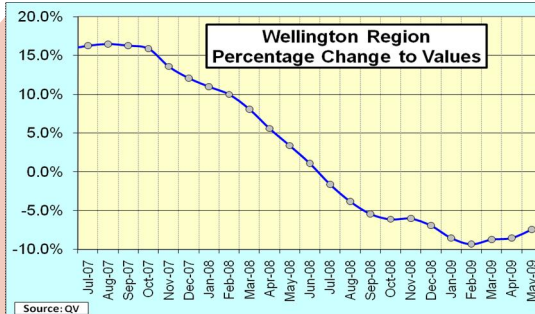
The shortage of properties for sale is confirmed by the REINZ number of properties listed in May, only 618 - 38% less than in April. There are signs that prices are starting to increase in some areas, and we note that the REINZ figures for the average asking price has increased from April to May by 3.1% to \$430,744.

LIFE GOES ON...

Our review of the latest QV and REINZ statistics leaves us with a concern that the market is set to move off in a rush. In recent months we have been predicting a change and this is now clearly happening, but where to next?

The downturn in the property market and the recession has held buyers and sellers back but the need for property has not stopped.

People move, form partnerships, have families, split up or aspire to something better. In addition, there is the natural increase in population, fewer people doing their OE and high immigration. Over the past two years the housing market has not been meeting the need. Now, lower interest rates and increasing rents are also making buying a more attractive proposition creating a substantial build up in demand for property.



The REINZ median price for the Wellington area is also showing signs of increasing. This is a volatile measure, but a three month average shows the trend over the past year and is indicating support for the upswing. Read in context with the seasonal patterns the market is showing very positive signs for growth, nurturing the green shoots+starting to sprout.

On the supply side the new house and apartment construction has all but stopped. This imbalance is fertile ground for price increases and may already be pushing prices up. This month we have heard extreme examples of properties receiving 11, 17 and 20 offers. This may be why we are seeing an increase in the REINZ median sale price for Wellington, and a reduction in the time to sell.

What does this mean for buyers? Find out the demand for the area you are interested in. The agents should be able to tell you how long a property has been on the market. If it's a good house, make a strong offer - don't think it will be a bargain because times are tight.

What does this mean for sellers? It's a good time to sell. Ask your agent what's happening in the area and how long houses are taking to sell and whether your suburb is bucking the trend.