The Value of Compliance

It is hard to believe that The Profit is celebrating its 10th birthday and that Williams' Harvey, has been writing a column for a decade now. I went back over all the articles written and it appears that in a nutshell compliance has been the single biggest change in our sector. Whether in response to economic upheavals such as the Global Financial Crisis (GFC) or natural catastrophes especially the Canterbury earthquakes, the level of compliance we need to adhere to in our reporting to satisfy stakeholders stands out.

We set up our business in 2006, little knowing the world was about to be plunged into one of the biggest periods of financial stress since the 1930 Great Depression with the GFC. Worldwide housing prices plummeted approximately 31% - more than the price plunge of 1930. As a result, and in response to the GFC by 2010 regulators worldwide were responding to the financial crisis experience with a large and ongoing program of reforms to "strengthen requirements on banks' capital and liquidity structures and bolster domestic and international financial supervision".

Regarding valuing property in New Zealand a panel ordering system was established. In February 2011, I wrote an article titled 'Changes Afoot' which signaled that lending institutions would adopt the 'panel ordering' system if you required a residential property valuation for mortgage security purposes.

Essentially, lending institutions felt this brought about "greater independence and rigour and through its risk management policies, highly incentivise bankers to correctly assess the risk of a loan, and with an independent assessment of value of the collateral for security, which is a critical aspect of the policy." ANZ was the first adopter and as predicted all banks have now adopted one of the two panels (Corelogic and Valocity) available followed by second tier lenders and mortgage brokers.

Subsequently reporting has considerably increased the amount of compliance placed on as Registered Valuers in order to mitigate the stakeholder's aversion to risk. Not entirely popular at first and reports made pretty 'negative' reading, however, I predict they are here to stay and are now an accepted part of the lending process for all.

No sooner had these changes been implemented when the 2011 Christchurch earthquake hit. The impact on valuing and property values was profound. As a result, earthquake risk was prioritised and adherence to the Building Act of 2004 regarding a building withstanding a moderate earthquake was enforced rather than being a best practice option. Words such as 'liquefaction', 'seismic strengthening' and 'earthquake prone buildings' (EPB) became part of the reporting landscape, driving the Building (EPB) Amendment Act 2016. As Valuers we have to comment on all of the above and in some cases where buildings were found to be earthquake prone, values plummeted.

Commercial property owners found

themselves in the insidious position of having to remediate buildings (with regulatory timeframes now set) as well as manage tenants and/or their businesses, if owner occupied. From a valuation perspective lending institutions and insurers became more concerned with a building's 'New Building Standard' (NBS) percentage. As these factors impacted property's value lending institutions had the ability to structure funding to mitigate perceived risk. Ultimately, the more relevant information we can analyse means a more accurate assessment of value can be determined.

Residentially there were impacts too. Pre the Canterbury earthquakes residential property was insured on a replacement basis for a floor area size, with no regard to cost. Post the earthquakes insurers and reinsurers found themselves to be considerably underinsured. Consequently, there was a change to an agreed sum insured which needed to include the house, all other site improvements, services, demolition and inflationary provisions. A substantial change and costly exercise for homeowners who wanted to set an accurate sum insured.

The aim is to satisfy the auditing process for both banks and insurer's risk management systems. This together with the Reserve Banks move to increase the loan to value ratio (LVR) has meant more equity is required by buyers when purchasing a home. Therefore, whether by mother earth or man-made the impacts of the last decade on the property sector have resulted in compliance, taking more time to produce a considered and accurate report.

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