



THE SOPHISTICATED PROPERTY INVESTOR WORKBOOK



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AT THE VERY BEGINNING (20 min)

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Module 1

Starting out

What type of investor are you? What is your risk profile



High Risk



Medium risk



Low risk



Low risk high
return
investments

Essential Services

Accommodation

* Accommodation services for essential workers and people who need to be isolated/ quarantined

Border

* Customs New Zealand, Immigration New Zealand and the Ministry for Primary Industries

Building and Construction

* Building and construction related to essential services, critical infrastructure, or immediately needed to maintain human health and safety at home/work

Fast-moving Consumer Goods

* Businesses involved in the supply, delivery, distribution and sale of food, beverage and other key consumer goods (but not takeaway shops)

Health

- * Hospitals, primary care clinics, pharmacies, medical laboratories, care facilities
- * Mortuary services
- * Blood donor centres
- * Natural health services are considered non-essential
- * Primary industries, including food and beverage production and processing
- * Packaging, production and processing of food and beverage products
- * Food safety and verification, inspection or associated laboratory services, food safety and biosecurity functions
- * Veterinary and animal health/welfare services

- * Dairies can remain open, with a one-in-one-out rule, and cannot sell cooked food
- * Liquor stores must close, unless they are within Licensing Trust areas
- * The Warehouse must close, but Bunnings, Placemakers, Mitre 10 and other retailers essential to the supply chain for building and construction can stay open to trade customers for essential purposes only
- * Self-service laundries can stay open, with two metre physical distancing to be enforced
- * Butchers, bakeries and similar small-scale food retailers are considered non-essential

Science

- * Any entity (including research organisations) involved in Covid-19 response, hazard monitoring, resilience, diagnostics for essential services Social services
- * Welfare and social services, including NGOs, which meet immediate needs (further guidance will be provided)

Transport And Logistics

- * Transport services, including Kiwi Rail.
- * New Zealand Post and courier services
- * Any small passenger service vehicle driver – including taxis and ride-share services
- * Utilities and communications, including supply chains
- * Electricity, gas, water, waste, fuel, telecommunication services, internet

Information Gathering

Source:

<https://www.stuff.co.nz/national/health/coronavirus/120499861/coronavirus-what-are-essential-services>

Companies on-line to subscribe to (free information)

<https://www.propertyexpert.nz/>

<https://www.cbre.co.nz/research-reports>

<https://www.colliers.co.nz/en-nz/countries/new-zealand/our-research>

<https://www.interest.co.nz/property/commercial-property-sales>

<https://legalvision.co.nz/property-and-leasing/factors-consider-buying-commercial-property/>

<https://www.rnz.co.nz/news/business/438139/what-s-driving-the-commercial-property-sector>

Notes:

Module 2

Income Capitalisation Method

- $V = I/R$
- V = Value
- I = Income (Rent)
- R = Capitalisation rate (Cap rate)

Example

A stable tenant called 'Joe's widgets' is on a 4 year lease is paying rent of \$50,000 p.a. plus opex. For a 300m² warehouse. You had done your homework on both the warehouse sector and the location and found that the expected yield (Cap rate) is 7%. Just to make sure, you rung around some agents to find out what they believed the cap rate was for this type of investment...just to be sure. Turns out the range is from 6.5% to 7%.

Let's go with 7%. What do you think the value of that building is?

Ok let's put what we know in the equation:

$$I = \$50,000$$

$$R = 7\%$$

$$V = \$50,000/7\%$$

$$V = \$50,000/0.07$$

$$V = \$714,285$$

And that is how to get an idea on what the market value might be for a property. Now let's look at those parts individually so we make sure that you understand them. Capitalisation or yield or Cap rate:

If we wanted to get the range of possible values for this building we would replace the 7% cap rate with the 6.5% as the agents had told us that the range was 6.5% to 7% You will find that the value is now: \$769,230.

Out of town property with the same rent:

Sam's Gadgets

$$V = I/R$$

$$V = 50,000/0.08$$

$$V = \$625,000$$

Comparable Sales Method



Example 1 – Auckland – Victoria St

Sale Price = \$399,000

Net Area: 45.1 M2

Net Income = \$31,000 + Gst

Square Metre Rate: \$687/m2

Cap Rate = _____

Example 2 – Auckland Cbd - Queen Street

Sale Price = \$499,000

Net Area: 45.1 M2

Net Income = \$24,000 + Gst

Square Metre Rate: : \$1000/m2

Cap Rate = _____



Example 3 - Taumaranui

Sale Price = \$115,000

Net Area: 85 M2

Net Income = \$11,000 (Approx.)+gst

Square Metre Rate: \$11,000/85
= \$129/M2

CAP RATE = _____

*high Cap Rates Normally Equal High Risk





Retail Mall

Sale Price = \$210,000

Net Income = \$19,500

Cap Rate = _____

Summary

As you can see in the examples, the cap rates are low for the centre of the largest city in NZ, a little bit higher for the outskirts of the CBD and a lot higher for Tamaranui. With the lease terms and the tenant covenant being equal amongst the three examples, the difference in the cap rates are due to the location. The risk lies in the ability to find another tenant if the one you currently have decides to leave. The higher the risk, the higher the return.

Observations

So, to summarise this module, we need to remember that there are very unlikely to be any free lunches out there and if the cap rate is higher than expected then there is usually a reason. As a sophisticated investor it is your job to find where you can add value to increase the cap rate from the rate that you purchase at. We will go through some ideas later on in the course.

Module 3

Valuations

1

Market value valuation

2

Insurance Valuation

3

Rental valuation

4

Chattel Valuation

You Can Claim Depreciation To Reduce Your Taxable Income

- Air conditioners @ 20%
- Electrical Reticulation @ 8%
- Light Fittings @ 20%
- Fitted Furniture @ 13%
- Partitions (non-load bearing) @ 10%
- Plumbing @ 8%
- Lifts @ 8%
- Vinyl flooring @ 20%
- Signage @ 10%
- Security system @ 20%
- Fire hose reels @ 8%
- Roller Doors @ 16%

EARTHQUAKES



1. Deep parapet

This can indicate unreinforced masonry (URM)

2. Area

This can indicate the era that the street was established

3. Veranda

If a veranda was attached to the top of the first floor then this is typical of an URM

4. Deep windows and detail above windows

This is characteristic of a pre-1935 building and URM

5. If you see the ends of bricks at the end of the building this indicates URM. If plaster and weep holes are seen then probably not URM.

High	$Z \geq 0.3$	Gisborne, Napier, Hastings, Palmerston North, Wellington Blenheim, Christchurch
Medium	$0.15 \leq Z < 0.3$	Tauranga, Hamilton, Rotorua, New Plymouth, Whanganui, Nelson, Timaru, Invercargill
Low	$Z < 0.15$	Northland, Auckland, Oamaru, Dunedin

- The 'Z' factor is used when designing new buildings to fit within the NZ Building Code.
- Earthquake prone register in NZ (<https://epbr.building.govt.nz/>)

Earthquake remedy dates:

Seismic risk area	TAs must identify potentially earthquake-prone buildings by:		Owners of earthquake-prone buildings must carry out seismic work within (time from issue of EPB notice):	
	Priority	Other	Priority	Other
High	1 Jan 2020	1 July 2022	7.5 years	15 years
Medium	1 July 2022	1 July 2027	12.5 years	25 years
Low	N/A	1 July 2032	N/A	35 years

NOTES

Module 4

Hotels

See Appendix for an example of resource consent costs
different ways to invest:

Development

- Buy and develop the land
- Conditional offer, mgmt. contract, then sell apartments

Invest

- Sell guaranteed rent and private apartments

Queenstown

Different options for the investor:

HOTEL	YIELD	EXPENSES DEDUCTED	FLEXIBILITY TO LIVE IN
RAMADA	5% GUARANTEED	NO	NO
OTHER QUEENSTOWN HOTEL	DEPENDS ON OCCUPANCY	YES	YES

Example – Ramada lease

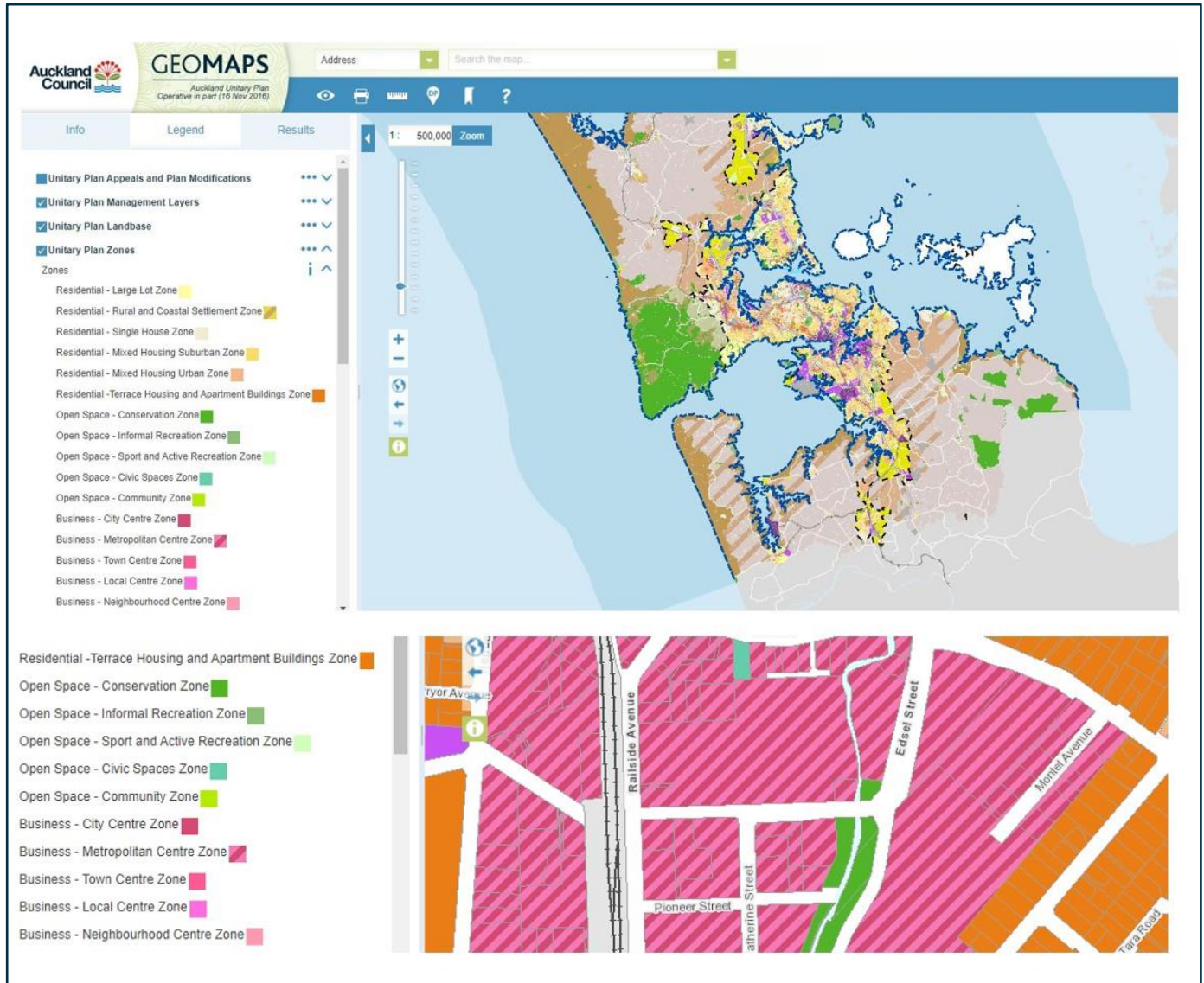
Force Majeure Clause

This clause may be in any Commercial lease you take up and it is important for you to know the ramifications for you as an investor. The effect of the clause allows the payer to cease payments due to acts beyond their control, an example of a couple might include the GFC in 2008 and the Pandemic in 2019.

In order for the payer to exercise this clause, the event must pass these 3 tests:

1. The occurrence of the event was beyond the party's control;
2. The event has prevented the party from fulfilling its contractual obligations or performance of the contract;
3. All reasonable endeavours have been taken by the party to rectify the event and to mitigate any damage it has caused.

High Rise



Above: Example of zoning pic on Auckland Council website



Child Care Centres

These have been very popular both with investors and business owners. Due to the government subsidies the risk was reduced for both parties and they have been set up all over the place. Normally the leases are 6 years plus and sell anywhere within the 4 to 6% range. Just a re-cap on this, (see example on powerpoint).

- Typically the returns are between 4 and 6 %.

Syndications



There are different types of syndication:

1. Syndication that is backed by the rent of several commercial properties

This type of investment requires you to be a wholesale investor before you can invest. There is an outline of what this means in your Workbook. You will typically need at least \$50,000 to invest which will buy you a share of the particular fund being created. This risk is less than it might be with a single tenant fund but the downside is how you get your money back.

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When the company is private i.e. not listed on the stock exchange the shares can be more difficult to sell. To sell your share you would need to ask the Fund manager to let them know if there are any buyers and to let those buyers know that their share is for sale. You could also list it on Syndex for a fee or another site currently being developed called PropertyPalz.

2. A syndication with a single commercial asset such as one with a tenant such as Countdown

This type also requires you to invest \$50,000 and the projected return, lets say it is 9% may include the capital value of the asset on sale. The fund may have a finish date. For example in 10 years time, Countdown may be due to renew their lease at a higher rent. This is the opportune time for the Fund Manager to sell the property given the reduced risk of a brand new lease. There will be a capital gain and this gain, after costs, is distributed to the shareholders.

If Countdown does not renew, you will still have a share in the building but with no tenant. The property may remain empty for a period of time before a new tenant is found. You will want to ask your Fund Manager before you invest what will happen in the event that the tenant does not renew their lease.

3. A syndication where a developer is looking for investment to build properties

Normally a developer will obtain funding from a bank or other funding institution. When the lender believes that the market isn't as much of a sure thing, the risk goes up as does the company's interest rate. The developer may then look to obtain cheaper funds from wholesale investors. They may offer up to 10% return. Remember here that return normally equals risk and if the developer is offering 10% return it could mean that their funder wouldn't lend them money for more than a 10% interest rate or the term was shorter and they have to pay a high up-front cost to the lender. The return of 10% could include the assessed capital gain in the future sale price once built. Be careful with this one. Firstly, we don't know what the market will be like in the future when the building is built, especially if it is residential townhouses or apartments. Secondly, if commercial, you don't know how likely it is that a tenant will be found and how long that will take.

Wholesale Investors

1. A fund which is backed by the rent of several commercial properties
 - Normally a projected return of between 5 and 8 % is offered.
2. A fund which is backed by a single commercial asset
 - An example of this could be a tenant such as Countdown supermarket
3. A development company may offer projected funds
 - This is for future building and sales – different animal altogether

Eligible Investor Certificate

The FMCA is the governing authority (in NZ) on how the fund operates in terms of disclosure and generally protecting the investor. The FMCA requires that an Eligible Investor Certificate needs to be produced if the total investment is below \$750,000.

New Zealand resident investors and New Zealand residents who are Wholesale Investors as defined in Clause 3 of Schedule 1 of the Financial Markets Conduct Act 2013 (“FMCA”) as follows:

1. Invest a minimum of \$750,000 in Shares in the Fund;
2. Be an “investment business” as defined in clause 37 of Schedule 1 of the FMCA;
3. Meet the investment activity criteria in clause 38 of Schedule 1 of the FMCA which is that;

They, within the last 10 years, have been employed or engaged in an investment business and have, for at least 2 years, participated to a material extent in the investment decisions made by the investment business.

Module 5

Financial Analysis

WALT – Weighted Average Lease Term

This is the figure that provides an average of the lease terms in the building

WALE – Weighted Average Lease Expiry

This is the figure that shows the average number of years before the leases will end.

Tenant	Lease Term remaining	Tenancy area %	Income %
Tenant 1	8	29%	30%
Tenant 2	6	31%	32%
Tenant 3	3	14%	13%
Tenant 4	5	26%	25%
Totals		100%	100%

The Wale Calculated By Area Is

$$(0.29 \times 8) + (0.31 \times 6) + (0.14 \times 3) + (0.26 \times 5)$$

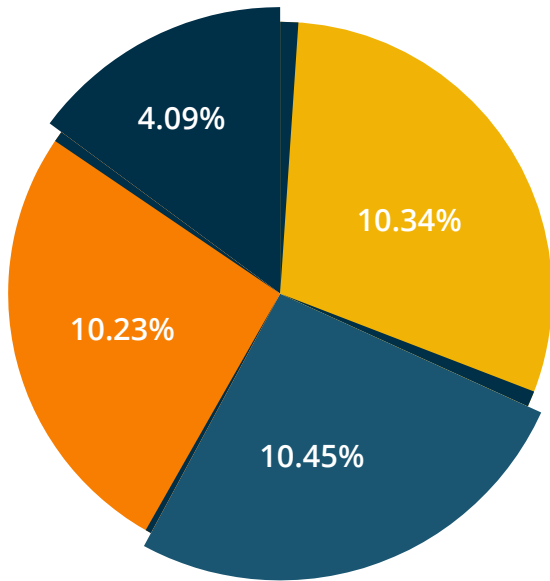
$$2.32 + 1.86 + 0.42 + 1.3 = 5.9 \text{ years}$$

Wale Calculated By Income:

$$(0.3 \times 8) + (0.32 \times 6) + (0.13 \times 3) + (0.25 \times 5)$$

$$2.4 + 1.92 + 0.39 + 1.25 = 5.96 \text{ years}$$

PORTFOLIO BUILDING



So, in summary the wealth wheel shows three positive yielding properties and one negative yielding ones. You can group these properties together and label the wheel 11%. You then roll the wheel on and start another one. This can be a good way to manage your portfolio and even exit it. Selling one fairly high risk property at 10% might be difficult but when put into a wheel and the wheel is sold, selling may just become that much easier. In theory this is not unlike the tranches the bankers use to sell mortgage rolls.

PROPERTY	PURCHASE	DEPOSIT	MORTGAGE	RENT	MTGE PMTS	BALANCE	CAP RATE
1	\$370,000	\$129,500	\$240,500	\$38,265	\$19,112	\$19,153	10.34%
2	230,000	80,500	149,500	23,517	11,885	11,632	10.22%
3	220,000	77,000	143,000	23,000	11,368	11,632	10.45%
4	220,000	77,000	143,000	9,000	11,368	(\$2,368)	4.09%
TOTALS	\$ 1,040,000	364,000		\$ 93,782		\$ 40,049	

Module 6

Agreement To Lease

(see Appendix)

Rent Review: CPI or Market?

Always try to have CPI+ or a fixed rental figure in the lease

Ratchet Clause

Soft ratchet:

Notwithstanding any other provision of the cause, the annual rent payable as from the relevant market rent review date shall not be less than the annual rent payable as at the commencement date of the then current lease term.

Hard ratchet:

Notwithstanding any other provision of the cause, the annual rent payable as from the relevant market rent review date shall not be less than the annual rent payable as at the last rent review date.

Extra clauses for Agreement To Lease

Guarantee of rental of property by vendor

Prior to the possession date, the vendor must procure the execution by a tenant approved by the purchaser (which approval must not be withheld where the proposed tenant is respectable, responsible and solvent) of a deed of lease containing the following terms:

- (a) Rental of [\$] per annum;
- (b) A minimum term of [.....] years;
- (c) Rental reviews at [.....] yearly intervals;
- (d) Use: Such use as conforms with the requirements of the operative and any proposed District Plan and as is otherwise approved by the purchaser PROVIDED THAT such approval must not be unreasonably or arbitrarily withheld in the case of a use which is not noxious, offensive or illegal;
- (e) Commencement of rental: On or prior to the settlement date;
- (f) The personal covenants of the shareholders where the tenant is a company other than a public listed company;
- (g) Such other terms as are usual and reasonable

If a lease as set out above is not arranged, the vendor must pay monthly in advance to the purchaser an amount equivalent to the monthly payments of rent and all other outgoings which would otherwise be payable if such tenancy had been arranged and such monthly payments will continue until a lease has been arranged by the vendor with such apportionment for any broken monthly period as may be appropriate.

Notes:

The use of this clause should be undertaken only with careful specific legal advice as it may require the inclusion of various conditions which are the subject of both parties obtaining legal advice.

Approval of Leases

This agreement is conditional upon the purchaser's lawyer approving in all respects all the leases to which the property is subject ("Leases").

The vendor must make copies of the Leases available to the purchaser's lawyer within [.....] working days after the date of this agreement. The date for the satisfying of this condition is [.....] working days after the purchaser's lawyer receives copies of all the Leases. The purchaser's lawyer may give or withhold approval of the Leases in his or her sole discretion.

Vendor's Authority

The vendor warrants that:

- (a) The entry by it into this agreement has been duly authorised by all necessary action of the vendor; and
- (b) The vendor has full power and lawful authority to enter into this agreement and to perform or cause to be performed all of its obligations under this agreement and under each transaction contemplated by this agreement to be performed by the vendor.

Expiry of Prior Option

This agreement is conditional upon the existing option over the property previously granted by the vendor to [insert name of the option holder] not being exercised by [insert date]. This condition is inserted for the sole benefit of the vendor.

Lawyer's Approval

This agreement is conditional upon the approval in all respects of the lawyer for the vendor / purchaser [delete one] who may take into account the commercial and conveyancing aspects of this agreement and any other matters which the lawyer considers are relevant. The lawyer is entitled in his or her absolute discretion to give or withhold approval. This condition has been inserted for the benefit of the vendor / purchaser [delete one].

Note: If in doubt specific legal advice should be sought by the parties. If there is to be a requirement for full lawyer approval then a due diligence clause may be more appropriate. In a number of cases, the Courts have held that a "Lawyer's Approval" clause permits withdrawal from an agreement only by reason of legal issues and not for other reasons.

Insurance Disclosure

The vendor must supply the purchaser with a copy of the vendor's building insurance policy for the property including any relevant policy schedules, and any and all insurance details and information which relate to the property, within [.....] working days of the date of this Agreement.

Professional Reports Conditions

This agreement is conditional upon the purchaser being satisfied in all respects with the condition of the property after obtaining at the purchaser's cost such professional reports as the purchaser thinks fit including but not limited to a building inspection report, a structural engineering report, and a geotechnical engineering report. The professionals must not carry out any invasive testing of any buildings without the vendor's prior written consent. However, geotechnical professionals may carry out invasive testing of the land by test drilling and any other tests necessary to ascertain the land conditions, subject to prior consultation with the vendor as to the extent of the tests required and provided that the land is restored as near as is practicable to its previous condition.

The date for the satisfying of this condition is [.....] working days after the date of this agreement. This condition is inserted for the sole benefit of the purchaser.

Obtaining Finance

This agreement is conditional upon the purchaser arranging finance by [insert date] or / within [.....] working days of the date of this agreement [delete one], of an amount of [\$] or / [..... %] of the purchase price [delete one] by way of a first mortgage to be secured against the property from [insert name of lender] or a similar lending institution on terms satisfactory to the purchaser. This condition is inserted for the sole benefit of the purchaser.

Vendor to Construct New Dwelling on the Land

The vendor must, at the vendor's cost in all respects, complete construction of the dwelling currently under construction on the property together with such other improvements as are identified in the vendor's plans and specifications (attached) and which are lodged with the local authority for the purpose of obtaining the necessary building consent under the Building Act 2004. The vendor must complete the construction diligently and with due expedition in accordance with best trade practices and the warranties set out under the Building Act 2004 and in accordance with the current building codes and the terms of the building consent.

Obtaining Approvals and/or Resource Consent

This agreement is conditional upon the landlord / tenant [delete one] obtaining at that party's own cost from the relevant local authority such approvals or consents as are required to carry out the works or development in respect of the property which that party has agreed to carry out. Such consents or permits are to be obtained upon terms and conditions acceptable to the party making the application for the consent. The party responsible must promptly make application for such consents or permits. Such consents or permits are to be obtained on or before [insert date] or / within [.....] working days of the date of this agreement [delete one]. This condition is inserted for the sole benefit of the landlord / tenant [delete one]

Due Diligence clause

The agreement is conditional upon the purchaser being satisfied with the results of a due diligence investigation of the property and the purchaser's intended development of it by 5pm on [Date]. If the purchaser is dissatisfied with any aspect of this investigation the purchaser may at the purchaser's absolute discretion by notice in writing terminate this agreement and in such case any deposit paid must immediately be refunded in full. This clause is inserted for the sole benefit of the purchaser and the purchaser is under no obligation whatsoever to supply any reasons for the purchaser's dissatisfaction with any aspect of the investigation.

Module 7

Deed of Lease

The clause below appeared in the Deed of Lease post the Christchurch earthquakes in 2011, which has caused much discussion post during the Covid era.

Deed of lease Clause 27.5 (c)

The clause states that in an emergency...

"then a fair proportion of the rent and outgoings shall cease to be payable for the period commencing on the date when the tenant became unable to gain access to the premises to fully conduct the tenants business from the premises until the inability ceases."

Sale & Purchase Agreement

(see Appendix)

Module 8

Recording - Tenant Database

See appendix

Recording - Tenant Database – See Appendix

Action	15/03/2021	25/03/2021	28/03/2021	03/04/2021	04/04/2021	15/04/2021	21/04/2021	21/04/2021	22/04/2021	01/05/2021		30/06/2021
Mortgage broker	Completed											
Decide on sector		Completed										
Ring tenants in that sector			Completed	Completed	Completed							
Look for vacant properties					Completed							
Details on 10 properties (Cap rate)				Completed	Completed	Completed	Completed					
Talk with existing tenants						Completed	Completed	Completed				
Identify opportunities (twist)						Completed	Completed	Completed				
Make offers with DD							Completed	Completed	Completed	Completed	Completed	
Dure diligence												
Go unconditional										Completed	Completed	
Carry out work										Completed	Completed	Completed
Re-Value												Completed

CRITICAL PATH BY ■ =Completed ■ =Not complete ■

Appendix

Contents

1. Glossary
2. Development cost example
3. Clauses you may need

Glossary

Absorption

The change in rented space from period to period. A positive absorption rate from one year to the next usually means un-utilised space is now rentable space.

Act of God

This is a term you will most likely find in your insurance policy and possibly your lease agreement. It includes natural events like rain, lightening, earthquakes or floods. Most insurance policies don't cover damage or losses caused by 'Acts of God,' so it pays to check. The exception is where the government may provide a percentage through an earthquake levy as is the case in NZ.

Anchor

A major tenant in a retail centre. The anchor tenant is the cornerstone of the development and the type of anchor determines what type of retailers will be interested in the shopping mall. They typically pay far lower rent on a per square metre basis due to the amount of rented space plus a percentage rent on their gross sales. Supermarkets such as Countdown or New World may be anchors as well as retail stores such as K-Mart and Farmers.

As-Is / As-Built

The space will be leased exactly the way it is at time of viewing which is typically with the bare necessities. The landlord will not provide any improvements, apart from the basic services to the unoccupied space. This is normally seen when either the space is new and finished to a level that is acceptable OR that a previous tenant built out the space and the landlord is not willing to renovate it. Changes will be up to the tenant.

Amenity

A feature that enhances the attractiveness or usefulness of the property in order to attract a tenant or/and to enhance the value. For example, scenic views, proximity to public transport, shopping or recreational facilities, outdoor areas and tenant specific needs.

Amortise

Regular payments to repay a mortgage that cover both Principal and Interest as opposed to interest only loans.

Appraisal

A formal analysis of a property's estimated value, as prepared by a real estate agency. Not to be confused with a registered valuation which can only be carried out by a registered valuer.

Appreciation potential

The possibility or probability that a real estate investment will increase in value during the period that is being analysed.

Asking Price

The price on a property that has been provided by the vendor. The asking price has no correlation to the actual value of the property unless the property sells for the asking price, it could be looked at as a market test to see what he/she can realise for the property.

Assignment

Transferring a lease or the property purchase from one entity to another. Different to a sub-lease.

Auction

A real estate sale where the purchasers come together either in a meeting place or on-site to bid for the ownership of a property. The highest bidder (can be by phone) has an unconditional agreement on the fall of the hammer, providing the vendor's reserve has been reached. If the reserve has not been met, the property will be 'passed in'.

Balloon Payment

A large lump-sum payment made on a loan to clear a debt. This is usually undertaken when you require low monthly payments but know that you will be receiving a large receipt in the future.

Beneficiary

The person or entity who receives benefits or income from a trust, estate or deed of trust.

Bi-monthly payment mortgage

Instead of the standard monthly payment schedule, this mortgage requires debt repayments every fortnight.

A large amount of interest can be saved with this strategy by reducing the term of the loan.

Body Corporate

An administrative organisation made up of all or some of the owners of units in an apartment building. A Body Corporate committee is elected by the owners to maintain and look after the building under the direction of a chairman and/or a body corporate administrator.

Breakpoint

The sales threshold over which a percentage rent becomes payable. It is calculated by dividing the annual base rent by the negotiated percentage applied to the tenant's gross sales. Typically seen in shopping malls.

Bridging Loan

A short-term, usually high-interest loan to cover the financial shortfall when you are selling one property and buying another.

Bright line Test

When a property is purchased and sold within 5 years of purchase from 29 March 2018, the financial gain on sale will be taxable. This does not apply if the property was the home you live in, inherited or provided to you via a deceased estate.

Building Code

Your local city council has regulations and guidelines provided by a government agency that controls the design, construction, and materials used to build or renovate a property.

Buyers' Market

When property supply outweighs demand the advantages of purchasing a property shift to the buyer.

Buy/rent threshold

The point at which there is a recognizable shift of expenditure allocations away from owner occupied housing and to the rental housing market (or vice-versa) as a result of changing market conditions. At the time of writing many tax benefits in NZ have been taken away from the rental housing market and hence it is in short supply.

Capital

The money that is used to create an annuity, the accumulated wealth of a person or business, or a business' net worth represented by its assets.

Capital expenditures

Property improvements that cannot be written off as a current operating expense for tax purposes. Examples include a new roof, tenant improvements, or a parking lot—such items are added to the capital of the property and then can be depreciated over the holding period. Distinguished from cash outflows such as new paint or plumbing repairs (operating expenses) that can be expensed in the year they occur.

Capital Gain

The financial gain on the sale of a capital asset. Not officially in NZ yet, however the 'Bright Line' rule is a close equivalent and is now in place

Capitalisation rate

The yield rate at which risk is measured relative to comparable risks in the same sector. This rate is the return that you would expect to receive from an investment.

Cash Flow

Measuring how much cash is coming in as earnings and going out in expenditure. Ideally you will want a positive cashflow, meaning that you have cash left over after paying out all related expenses.

Cash-on-cash rate

A return measure that is calculated as cash flow before taxes divided by the initial equity investment.

Cash Out Clause

Allows the vendor to accept an offer from another party while waiting for other conditions to be met. A notice period of 3 to 5 days is given to the original purchaser to declare their conditions satisfied if a post-agreement offer is received by the vendor.

Caveat

A legal equitable claim against a property that must be paid when selling a property in order for the caveat to be released off the title.

Certificate of Title

A legal description of a property, including the name of the registered owner(s), mortgages, and property rights. The vendor must produce it on the sale of a property.

Chattels

Personal items that can be removed from a property. Most sales will include the stove, oven, curtains and light fittings. Unless chattels are specified in the agreement, they are not included with the property.

Commission

A proportion of the sale price of a property paid to a real estate salesperson for negotiating the agreement. Usually a percentage as opposed to a flat rate to give the real estate salesperson a further incentive to achieve a higher value for the vendor in the sales process. This amount can be held in trust by a solicitor, the public trust or a trust account with the real estate agency.

Common Area Factor

The common areas of a building are those used by all tenants, such as a lobby, elevator, internal/external stairs or hallway. The factor represents the ratio of common areas to total building square meterage. The number is used to calculate how much a tenant should pay for their share of a building's maintenance. Tenants occupying more or at least using more square meterage will pay a larger proportion of the common area factor.

Concessions

Discounts given to tenants either as money off a lease or free rent (rent holiday). Some concessions are more useful to tenants than others, either by shifting costs further into the future or paying for large up front expenses.

Contiguous Space

Means two spaces are beside each other on the same floor or floors directly above or below.

Conditional Agreement

A legal contract subject to certain conditions being met. For example, you may purchase a property subject to due diligence being carried out. The contract will remain conditional until the expiry date, as written on the contract, has been reached.

Covenant

Terms, conditions, and restrictions on the property, noted in the certificate of title. It may affect what the property can be used for and can restrict future development.

CPI (Consumer Price Index)

The percentage change in a given period of time of goods and services. Otherwise known as 'Inflation' and often seen in the rent review clause of a lease.

Cross Lease

Common in blocks of flats. The unit holders on the property own an undivided share of the land and the land owners typically have a 999 year lease of their individual homes. Not much different to a freehold property with a few more restrictions or less 'bundle of rights'.

Deed

The old system of recording ownership and property details of a parcel of land in NZ. This was superceded by the Land Titles system in 1870. Not to be confused with other 'Deeds', as in the Deed of Lease.

Default

When one misses a due payment and does not pay within a required amount of time, one is said to be in default of the lease. Penalty interest can then apply.

Deposit

An initial payment which is typically a percentage of the purchase price or 2 month's rent of a lease. Normally an amount that will cover the real estate agent's commission.

Depreciation

An expense that be used to reduce tax liability for the property owner. The depreciation amount is designed to reflect the depreciating value of the improvements & chattels on a property.

Discounting

The process of reducing the value of money received in the future to reflect the opportunity cost of waiting to receive the money.

Due Diligence

A clause used in a lease or sale document that provides a purchaser a specified period of time to do their homework on the property to see if it suits their needs. The terms and conditions are locked in and the vendor is unable to lease/sell the property until the due diligence clause has expired.

Easement

A right of someone to use the land that's owned by someone else. For example, the local council may have a sewerage easement or the electricity supplier may have access across part of your property. If repairs or maintenance on the line are needed, they have a legal access right to your property to carry them out.

Effective Rate

The actual amount of rent paid on average per year. This amount takes into account any free rent from commencement (rent holiday) and varying rent amounts.

Efficiency percentage

The relationship of useable area to rentable area on a given property. Formula:
Efficiency % = Useable square metres/Rentable square metres

Encroachment

Part of a house or property that illegally hangs over another property. Check fences and boundary lines, or extensions and add-ons to a property before you deem a property unconditional.

Equity

The amount of property actually owned by the investor. The difference between a property's market value and the amount still owed on the mortgage.

Equity yield rate

The return on the portion of an investment financed by equity capital, sometimes known as the 'cash on cash return'

Estate

The total of all property, real estate and personal effects owned by a person when they cease to exist on the planet.

Eviction

Legally removing the owner, occupant, or tenant from a property. Bailiffs can assist with this in NZ if there is likely to be trouble.

Exclusive Listing / Sole Listing

A written contract that allows a specific real estate agent to sell a property within needs to be re-signed if the residential property has not sold in 3 months. No such restriction exists on the sale of commercial property.

Expiry of an Existing Agreement

Known as a backup agreement, if you're making an offer on a property already being sold subject to a conditional agreement. If the first offer doesn't go ahead, that buyer can't get an extension and your offer will come into effect.

Feasibility analysis

The process of evaluating a proposed project to determine if that project will satisfy the objectives set forth by the people involved (including owners, investors, developers, and lessees).
a specified time period. As at the date this book was written the term of agency

Fiduciary

Someone acting on behalf of a trustee. Real estate agents are considered fiduciaries and are said to have a 'fiduciary duty' in property transactions.

Finance

A condition in the contract that allows the purchaser/lessee time to arrange the finance to buy or lease the property in question.

Fittings

Objects that are not physically attached to the property. Examples include: Paintings, pictures or anything hung on a wall, curtains and rails, free standing fridge or oven.

Fixtures

Fixed items that cannot be removed from a property without causing damage. Examples include: Light fixtures, central heating, Bathroom suites, kitchen bench and cupboards, electrical sockets

Future value (FV)

The amount to which money grows over a designated period of time at a specified rate of interest.

Gearing

The ratio of how much of your own money and how much you have borrowed is going into an investment. Positively geared property is often desired or negatively geared property when there are good government provided incentives to reduce your tax liability.

Gross income

The total amount of the income that the landlord will receive including the operating expenses.

Gross lease

A lease in which all expenses associated with owning and operating the property are paid by the landlord. Also see net lease.

Gross leasable area (GLA)

The total floor area designed for tenant occupancy and exclusive use, including basements, mezzanines, and upper floors, and it is measured from the centre line of joint partitions and from outside wall faces.

Ground lease

A lease of the land only. Usually the land is leased for a relatively long period of time to a tenant that constructs a building on the property. A land lease separates ownership of the land from ownership of buildings and improvements constructed on the land.

Guarantor

A person who secures the holder of a loan in case they are unable to make repayments. Usually when a company is the tenant, the Directors are required by the Landlord to sign as guarantor.

Heads of Agreement

This is a non-binding agreement between the parties of a lease/development/sale of a property (either commercial or residential). It will outline the main points of agreement prior to a formal document being drawn up. Also known as 'Memorandum of Understanding' (MOU)

Highest and best use

The best use, normally measured in financial returns, that a parcel of land can produce. The highest use that would supply the best return in a balance of annuity and asset value.

Income capitalization approach

A method to estimate the value of an income-producing property by converting net operating income into a asset value. The capitalisation rate is divided into the net operating income to obtain the estimated value of the asset. $\text{Value} = \text{net operating income} \div \text{capitalization rate}$

Interest-only loan

A method of loan amortization in which interest is paid periodically over the term of the loan and the entire original loan amount is paid at maturity.

Interest Rate

Set by The Reserve Bank of New Zealand, which influences what other banks may charge. The Reserve Bank provides a wholesale interest rate for the banks to charge what they like, however recently the Reserve Bank has dictated lending to value ratios to the banks.

Internal rate of return (IRR)

The percentage rate earned on each dollar that remains in an investment each year. The IRR of an investment is the discount rate at which the sum of the present value of future cash flows equals the initial capital investment.

Land sale-leaseback

The same concept as a sale-leaseback, but only the land is sold and leased back using a ground lease.

Lease

A contract that creates the relationship between landlord and tenant. A contractually binding agreement that grants a right to exclusive possession or use of property, usually in return for a periodic rental payment. An Agreement to Lease provides the basics of a Lease agreement which legally binds both tenant and landlord once mutually signed. A Deed of Lease follows which includes the finer details and more small print.

Lease buyout

The process by which a landlord, tenant, or third party pays to extinguish the tenant's remaining lease obligation and rights under its existing lease agreement.

Lessee

The person renting or leasing the property. Also known as a tenant.

Lessor

The person who rents or leases a property to another. Also known as a landlord.

LIM Report

A Land Information Memorandum (LIM) report is prepared by your local council and provides a summary of your property including rates owing, resource planning permits, potential for flooding, subsidence or erosion. The report is not exhaustive and a copy of the property file should be acquired before purchasing a property.

Liquid Asset

An asset that can be converted into cash relatively easy.

Listing

A written contract between a property owner and real estate agent, authorising the agent to market and sell or lease the property.

LVR (Loan to Value ratio)

The amount of money borrowed in relation to the total market value of a property. Expressed as the loan amount divided by the property value.

Market Value

Assuming there is enough market activity to satisfy both buyers and sellers, this is the appraised price at which buyers are happy to buy and sellers are happy to sell. When a property is sold, then that sale figure becomes the market value for the property.

Mortgage

A legal agreement where a property is registered to the lender, normally a bank, as security for a debt. This is recorded on the Certificate of Title of the property.

Mortgage Broker

A person or company that can assist you with securing a loan. They may negotiate with banks on your behalf or help you put your loan application together. They're typically paid a commission by the lender when using a residential property as collateral although this is not always the case.

Mortgagee

Person or organisation lending money in a mortgage agreement.

Mortgagor

Person or organisation borrowing money in a mortgage agreement with a lender.

Negative Gearing

Where a return on an investment won't cover the direct costs of the investment. The investment then would be called 'negatively geared'.

Net lease

A lease in which the tenant pays, in addition to rent, all operating expenses such as real estate taxes, insurance premiums, and maintenance costs. Also see gross lease.

Net Operating Income (NOI)

Income that a landlord gets from a property after paying expenses. This allows investors to compare different investments based on the amount received.

Net Present Value (NPV)

The total cost or gain of something (a lease term, a building hold period) when compared over the same period of time. Makes it possible to compare the relevant cost or gain from two different lease terms, two different sales scenarios that may have different time frames. Takes into account the future sales gains or costs of the deal as well as the costs now and costs in between.

Offer

Intent in writing by one party to purchase a property. If a verbal offer is made, it cannot be binding when purchasing or leasing real estate.

Ombudsman

The Banking Industry Ombudsman is an independent arbiter, who you can complain to if you feel your bank has treated you unfairly.

Opportunity cost

The cost of selecting one alternative is the benefit foregone from the next best alternative. For example, if you lend money to a friend, the opportunity cost is the rate of return you would have received if that same money was invested elsewhere.

Parking Ratio

The number of parking spaces per 1,000 square metres of office space. This is sometimes used by Councils to determine how many employees can park on a site.

Passed In

The highest bid at an auction when the bidding does not meet the reserve price. Often the property sells through the negotiation with the highest bidder.

Passive income

Income from rental activity, limited business interests, or other activities in which the investor does not actively participate. Often referred to as financial freedom

Percentage rent

The additional rent (over a base amount) that is paid by tenants to owners on tenant sales over a specified dollar amount. It is frequently found in supermarkets/malls. Also known as overage rent.

PIM Report

Project Information Memorandum gives you an idea about potential erosion, subsidence, contaminants, or storm-water dangers on or around a property. This should be analysed along with a LIM

POA

Price On Application, a method used by some real estate companies to determine if there is any interest in a property.

Portfolio income

Income from interest, dividends, rent, royalties, or the disposition of property held for investment

Present value (PV)

The sum of all future benefits or costs accruing to the owner of an asset when such benefits or costs are discounted to the present by an appropriate discount rate.

Pre-qualification

A process that determines how much money you can borrow before applying for a loan. Normally a real estate salesperson will want you to be 'pre-qualified' before spending too much time with you looking for properties.

Prime Rate

An interest rate, usually favouring the borrower that banks charge their preferred customers.

Principal

The amount borrowed or still to be repaid on a loan. The principal is amortised with interest over a period of time which can make the amount paid to the lender several times the initial cost.

Private Sale

Where the owner sells their property without the services of a real estate agent.

Private Treaty Sale

Using a real estate agent to sell a property by negotiation. Basically a fancy term for stating that the property is for sale.

Property type

The classification of commercial real estate based on its primary use. The four primary property types are: retail, industrial, office, and multi-family residential.

Rate of return

The percentage return on each dollar invested. Also known as yield. This can be measured on the amount of equity invested or the total amount invested including borrowed funds.

Real estate investment trust (REIT)

An investment vehicle in which investors purchase certificates of ownership in the trust, which in turn invests the money in real estate and then distributes any profits as dividends to the investors. The trust is not subject to corporate income tax as long as it complies with the tax requirements for a REIT. Shareholders must include their share of the REIT's income in their personal tax returns.

Refinance

Paying off one loan with another loan while using the same property as security. Sometimes brokers will recommend this to achieve a lower interest rate from another lender.

Rentable area

The computed area of a building as defined by the guidelines of Building Owners and Managers Association (BOMA) and typically measured in square feet, including both core/structure and useable area. The actual square foot area for which the tenant will pay rent. It is the gross area of an office building, less uninterrupted vertical space (such as stairways and elevators). Unlike useable area, rentable area includes common areas such as lobbies, restrooms, and hallways as well as the measurement of structural columns and architectural projections.

Resource Consent

Different from a building consent, resource consents measure the impact an activity or development will have on the environment. This will be associated with a separate fee to the local authority.

Sale-leaseback

A leasing and financing strategy in which a property owner sells their property to an investor, then leases it back. This strategy frees capital that otherwise would be frozen in the property.

Sales comparison approach

A way to determine market value by comparing a subject property to properties with the same or similar characteristics.

Sale of Purchaser's Property

If the buyer is also selling their own home at the same time, they need their home to sell before they can purchase another. Also known as a contemporaneous agreement.

Securitization

The phenomenon of indirectly investing in real estate markets in ways that minimize risk (for example, investments made collectively with pooled money or the use of investment packages/funds, such as mortgage backed securities sold on the secondary financial market) as opposed to direct investments where investors own property or hold mortgages; a long-term trend that has had significant impact on real estate values.

Seller's Market

When demand for property outweighs the supply. Owners may find buyers willing to pay the asking price or more.

Settlement

When a property sale is finalised by legal representatives for the purchaser and vendor, and the new owner pays the balance owed on the property.

Sinking fund

A fund designed to accumulate a designated amount of money over a specified period of time. Usually used to pay off a debt or to replace a depreciating asset.

Special Conditions in a Sale & Purchase Agreement

Where the sale and purchase of a property relies on certain conditions being met. Examples given in the Appendix.

Specialist Report

The purchaser has a certain number days to obtain a report from a suitably qualified inspector. E.g., Builder's report, Geotech report, or Engineer's Report.

Step-up lease

A lease in which the rental amount paid by the lessee increases by a preset rate or set dollar amount at predetermined intervals. A step lease is a means for the lessor to hedge against inflation and future maintenance or operational expenses. It also allows the investor to plan ahead more effectively.

Sub-lease

Sub-lease

A lease in which the original tenant (lessee) sublets all or part of the leased interest to another tenant (known as a subtenant) while still retaining a leased interest in the property. As opposed to an Assignment where the original tenant hands over all the responsibilities to the new tenant. Landlord permission is

Tenant improvements

Preparation of leased premises for the use of the tenant prior to or during a tenant's occupancy, which may be paid for by either the landlord, the tenant, or both.

Tenant Schedule

List of all tenants in building and when all of their leases expire. Usually includes lease length, rates, etc. Useful for investors looking at a building's financial status.

Tender

Process for property sales asking for buyers to provide their best offer before a set date.

Traffic generators

A business, retailer, or site that draws business to a given location (for example, a large retail store/anchor in a regional shopping mall that generates traffic for smaller retail shops located within the mall or nearby). Could also be a petrol station as explained in this book.

Trail Commission

This is a sum of money that a financier will normally pay to a mortgage broker as long as the borrower remains in place. Usually the trail consists of a percentage of the loan which escalates every year starting from year 2.

Unconditional Agreement

A legal contract binding the buyer and seller to settle on an agreed date for an agreed price. You must be confident there are no issues or requirements, that you have the funds or are pre-approved for a loan before you give your solicitor permission to deem the contract unconditional.

Useable area

Rentable area, less certain common areas that are shared by all tenants of the office building (such as corridors, storage facilities, and bathrooms). Also defined in office buildings as the area that is available for the exclusive use of the tenant. Useable area = rentable area × building efficiency percentage.

Vacancy Rate

The percentage of space that is vacant – calculated by dividing vacant space by total square metres. Used in comparing various markets, vacancy is a good measure of how much relative space is available in a submarket.

Yield

A measure of investment performance that gauges the percentage return on each dollar invested. Also known as rate of return or Cap rate.

Zoning

Guidelines by your local council about how land can be used. A change of zoning can have positive or negative effects on your capital growth.

Potential costs to obtain RC For A high-rise apartment building (Module 4)

COSTINGS FOR RC	QUOTE
EXPENSES	
PLANNER	\$ 10,925.00
ARCHITECT - INITIAL PLANS	
ARCHITECT	\$ 44,045.00
Out of scope	\$ 4,000.00
FIRE ENGINEER	\$ 8,740.00
ACOUSTIC ENGINEER	\$ 3,000.00
TRAFFIC ENGINEER - SURVEY	\$ 6,250.00
TRAFFIC REPORT	\$ 8,395.00
CIVIL ENGINEERING REPORT	\$ 17,480.00
GEOTECH REPORT	\$ 17,825.00
ENVIRONMENTAL TESTING	\$ 4,025.00
PROJECT MANAGER	\$ 10,000.00
SURVEYOR	\$ 2,875.00
LANDSCAPE ENGINEER	\$ 4,300.00
URBAN DESIGN	\$ 2,600.00
COUNCIL DEPOSIT	\$ 20,000.00
TOTAL EXP FOR RC	\$ 164,460.00

Useful clauses (Module 6)

Useful clauses for Agreement to lease or Sale & Purchase Agreement

Expiry of prior option

This agreement is conditional upon the existing option over the property previously granted by the vendor to [NAME OF THE OPTION HOLDER] not being exercised by [DATE]. This condition is inserted for the sole benefit of the vendor.

Lawyer's approval

This agreement is conditional upon the approval in all respects of the lawyer for the vendor or / purchaser (DELETE ONE) who may take into account the commercial and conveyancing aspects of this agreement and any other matters which the lawyer considers are relevant. The lawyer is entitled in his or her absolute discretion to give or withhold approval. This condition has been inserted for the benefit of the vendor or / purchaser (DELETE ONE) and is to be satisfied by [DATE] or / within [.....] working days of the date of this agreement (DELETE ONE).

Obtaining Approvals and/or Resource Consent

10.1 This agreement is conditional upon the vendor or / purchaser (DELETE ONE) obtaining at that party's own cost from the relevant local authority such approvals or consents as are required to carry out the works or development in respect of the property which that party has agreed to carry out. Such consents or permits are to be obtained upon terms and conditions acceptable to the party making the application for the consent. The party responsible must promptly make application for such consents or permits. Such consents or permits are to be obtained on or before [DATE] or / within [.....] working days of the date of this agreement (DELETE ONE). This condition is inserted for the sole benefit of the vendor or / purchaser (DELETE ONE).

Director / Trustee ratification

11.1 The obligations of the purchaser under this agreement are suspended until the agreement has been ratified by the Directors / Trustees of the purchaser. In deciding whether to ratify the agreement, the Directors / Trustees may take into account the commercial and conveyancing aspects of the agreement and such other matters as the Directors / Trustees consider are relevant. If such ratification is not given in writing by the purchaser to the vendor on or before 5.00pm on the [.] working day after the date of this agreement, this agreement will be void and all moneys paid under it must be refunded and neither party will have any claim against the other. This condition is inserted for the sole benefit of the purchaser.

Internal inspection of property

14.1 This agreement is conditional upon the purchaser inspecting and approving the state of repair and condition of the interior of the property on or before [DATE] or / within [.....] working days of the date of this agreement (DELETE ONE). This condition is inserted on the basis that the purchaser has entered into this agreement before being able to obtain access to the interior of the property for inspection. The purchaser's rights pursuant to clause 3.2 of the General Terms of Sale continue notwithstanding that this

condition is satisfied. This condition is inserted for the sole benefit of the purchaser and either party may exercise their rights under clause 10.8(5) of the General Terms of Sale if this condition is not fulfilled.

Due Diligence (Short)

This agreement is conditional upon the purchaser being satisfied with the results of a due diligence investigation of the property and the purchaser's intended development of it by 5pm on [DATE]. If the purchaser is dissatisfied with any aspect of this investigation the purchaser may at the purchaser's absolute discretion by notice in writing terminate this agreement and in such case any deposit paid must immediately be refunded in full. This clause is inserted for the sole benefit of the purchaser and the purchaser is under no obligation whatsoever to supply any reasons for the purchaser's dissatisfaction with any aspect of the investigation. The vendor undertakes and agrees to:

- (a) allow the purchaser together with consultants employed by the purchaser full access to the property for the purposes of the due diligence investigation; and
- (b) provide to the purchaser any information held relating to the property relevant to the due diligence investigation.

Escape clause

If before this agreement becomes unconditional the vendor receives an acceptable offer from a third party to purchase the property, then the vendor may serve on the purchaser a notice requiring the purchaser to advise within [.....] working days after service of the notice whether all conditions for the benefit of the purchaser have been satisfied or waived and whether the requisition procedure in clause 6.0 of the General Terms of Sale has been completed to the purchaser's satisfaction. If the purchaser does not notify the vendor within the period set out above that the above matters have all been satisfied and that this agreement is accordingly unconditional, then this agreement will immediately terminate.

Cancellation of prior agreement

This agreement is conditional on the cancellation of the prior agreement referred to below ("Prior Agreement").

The vendor must not (without obtaining the prior written consent of the purchaser):

- (a) extend any of the conditional dates in the Prior Agreement; or
- (b) waive any right of the vendor to cancel the Prior Agreement.

The vendor must cancel the Prior Agreement as soon as the vendor is lawfully entitled to do so.

The Prior Agreement is an agreement for the sale of the property by the vendor to [.....] dated [DATE].

Contemporaneous Settlement

1.1 This agreement and another agreement dated [DATE] made between the same parties and affecting the property at [.....] are to be read together and are interdependent. Settlement under each agreement must take place contemporaneously.

Deadline for acceptance of offer

This offer by the purchaser is open for acceptance by the vendor by [.AM/PM] on [DATE]. If by that time, the vendor has not accepted the offer by signing this agreement and giving written notice of such acceptance to the purchaser or the purchaser's lawyer then this offer will lapse and have no further legal effect and neither party will have any claim against the other.

Disclosure of non-compliance

Despite any other provision in this agreement, the purchaser acknowledges and accepts that the purchaser has been fully informed that certain aspects specified by the vendor in respect of the property or buildings (as defined in the Building Act 2004) may not comply with the Building Act or the Building Code and that there is no building permit, building consent, resource consent, code compliance certificate, certificate of acceptance or final sign off for any building permits (if applicable), in respect of the property or building works carried out thereon. Accordingly, the vendor's warranties under clause 7 of the General Terms of Sale are hereby negated. The purchaser enters into this agreement and accepts the property on this express understanding and will have no claim against the vendor under the vendor's warranties pursuant to clause 7 with regards to the Building Act and the Building Code nor will the purchaser have the right to issue a purchaser's notice pursuant to clause 10.2(2) of the General Terms of Sale in respect of any matters relating to the non-compliance with the Resource Management Act 1991, Building Act or the Building Code.

Purchaser's waiver of requisition

The purchaser accepts the vendor's title and acknowledges that the purchaser has no right to object to or requisition the vendor's title under clauses 6.2 or 6.3 of the General Terms of Sale. Furthermore sub-clause 2.4(1) of the General Terms of Sale is hereby negated.

Subdivision

This agreement is conditional upon the vendor at the vendor's expense obtaining a subdivisional resource consent in respect of the attached sub-divisional plan ('Subdivisional Plan') on terms and conditions which are:

- (a) usual in the circumstances; or
- (b) not unduly prejudicial to either party; or
- (c) acceptable to each party.

The date for satisfying of this condition is [DATE].

Once the above condition is satisfied, the vendor must at the vendor's cost and with due expedition, take all necessary steps to deposit the Subdivisional Plan at LINZ in order to arrange for a separate title to issue in respect of the property. If the Subdivisional Plan has not deposited with LINZ after the date on which the condition in clause [.....] is satisfied, the purchaser may cancel this agreement by notice in writing given to the vendor at any time prior to the purchaser receiving notice of the deposit of the Subdivisional Plan.

The purchaser accepts that the area and/or the measurements of the property may be adjusted on final survey. The purchaser will have no claim of any kind against the vendor as a consequence of any such variations.

Variation to plans and specifications

The vendor reserves the right to amend, revise or alter the plans and specifications attached in such manner as the vendor considers appropriate having regard to the circumstances, and the purchaser will not be entitled to claim any compensation, damages, right of set off or to make any objection or requisition based on any such amendment, revision or alteration whether pursuant to clause 6.4 and 7.5 of the General Terms of Sale or otherwise provided that any such amendment, revision or alteration does not have a material adverse effect on the use, occupation, enjoyment or value of the property

Vendor to complete work prior to settlement

Prior to settlement the vendor must carry out the following work on the property at the vendor's cost:

- (a) [.....]
- (b) [.....]

Guarantee of rental of property by vendor

1.1 Prior to the possession date, the vendor must procure the execution by a tenant approved by the purchaser (which approval must not be withheld where the proposed tenant is respectable, responsible and solvent) of a deed of lease containing the following terms:

- (a) Rental of [\$.....] per annum;
- (b) A minimum term of [.....] years;
- (c) Rental reviews at [.....] yearly intervals;
- (d) Use: Such use as conforms with the requirements of the operative and any proposed District Plan and as is otherwise approved by the purchaser PROVIDED THAT such approval must not be unreasonably or arbitrarily withheld in the case of a use which is not noxious, offensive or illegal;
- (e) Commencement of rental: On (e) Commencement of rental: On or prior to the settlement date;
- (f) The personal covenants of the shareholders where the tenant is a company other than a public listed company;
- (g) Such other terms as are usual and reasonable.

1.2 If a lease as set out above is not arranged, the vendor must pay monthly in advance to the purchaser an amount equivalent to the monthly payments of rent and all other outgoings which would otherwise be payable if such tenancy had been arranged and such monthly payments will continue until a lease has been arranged by the vendor with such apportionment for any broken monthly period as may be appropriate.

Approval of Leases

2.1 This agreement is conditional upon the purchaser's lawyer approving in all respects all the leases to which the property is subject ("Leases").

2.2 The vendor must make copies of the Leases available to the purchaser's lawyer within [.....] working days after the date of this agreement. The date for the satisfying of this condition is [.....] working days after the purchaser's lawyer receives copies of all the Leases. The purchaser's lawyer may give or withhold approval of the Leases in his or her sole discretion.

Vendor finance and settlement date

The balance of the purchase price must be paid or satisfied as follows:

- (a) by payment in cleared funds of [\$.....] on the settlement date which is [.....]; and
- (b) by the purchaser executing in favour of the vendor a vendor finance agreement ("the vendor finance agreement") secured by a first or / second (DELETE ONE) mortgage ("the vendor mortgage") over the property for the sum [\$.....] on terms and conditions as are set out below.

The vendor finance agreement and vendor mortgage will be on the following terms and conditions:

- (a) Principal Sum: [\$.....] (the sum referred to in paragraph (b) of the immediately preceding clause).
- (b) Term: [.....] years commencing on the settlement date.
- (c) Interest: Accrues at an ordinary rate of [.] per annum on the outstanding Principal Sum, or accrues at a penalty rate of [.....%] per annum on any part of the Principal Sum then due and unpaid. Interest is calculated daily on the basis of the actual number of days elapsed and a 365 day year until payment of the Principal Sum in full.
- (d) Interest Payment: Payable weekly or / monthly or / quarterly (DELETE AS APPLICABLE) in arrears as from settlement date.
- (e) Optional Principal Repayment: Payable on any interest payment date in multiples of [\$] or the full balance of the outstanding Principal Sum, in each case together with accrued but unpaid interest, with interest ceasing to accrue on such amount as from the date of repayment.
- (f) Form of Mortgage: In accordance with the terms of clause 9.10 of the General Terms of Sale and prepared by the vendor's lawyer at the cost of the purchaser in all respects.
- (g) Priority Sum: Where the vendor's mortgage is a second mortgage the priority afforded to the first mortgage must not be more than [\$.....] or / [.....%] (DELETE ONE). of the purchase price.

Payment by instalments and settlement Date

The balance of the purchase price must be paid in cleared funds of [\$.....] by instalments on the post-settlement dates as specified below:

1. An instalment of [\$.....] payable on [DATE];
2. An instalment of [\$.....] payable on [DATE];
3. An instalment of [\$.....] payable on [DATE];
4. An instalment of [\$.....] payable on [DATE];

The remainder of the purchase price must be paid or satisfied by payment in cleared funds together with any unpaid instalments as set out above together with default interest accrued thereon on [DATE].

Any instalment of the purchase price unpaid on the due date for payment will attract default interest in accordance with the terms of clause (1) of the General Terms of Sale.

Payment by goods as part payment and settlement date

The balance of the purchase price must be paid or satisfied as follows:

- (a) by payment in cleared funds of [\$.....] on the settlement date which is [DATE].
- (b) The sum of [\$.....] will be satisfied by the purchaser transferring to the vendor on settlement date ownership of the following items:
 - (i) [ITEM]
 - (ii) [ITEM]

The purchaser warrants that the items listed above are or will be by the settlement date:

- (a) The unencumbered property of the purchaser and the purchaser will transfer good and clear title to the items; and
- (b) In good working order and repair.

If any of the items listed above require a notice, certificate or written evidence of change of ownership then the purchaser must provide the vendor on settlement with a valid signed and registrable form of such notice of change of ownership as a requirement of settlement.

Insurance condition

1.1 This agreement is conditional upon the purchaser arranging building insurance in respect of the buildings and any other improvements on the property on terms and conditions satisfactory to the purchaser in all respects within [.....] working days of the date of this agreement.

This condition is inserted for the sole benefit of the purchaser.

(Or)

1.2 This agreement is conditional upon the purchaser arranging building insurance in respect of the buildings and any other improvements on the property on terms and conditions satisfactory to the purchaser within [.] working days of the date of this agreement. The terms and conditions are deemed to be satisfactory to the purchaser and this condition is deemed to be satisfied if insurance is available to the purchaser on substantially the same terms and conditions as is currently maintained by the vendor in respect of the property