BEFORE THE REAL ESTATE AGENTS DISCIPLINARY TRIBUNAL

[2022] NZREADT 25

Reference No: READT 035/2021 & 036/2021

IN THE MATTER OF

An appeal under s 111 of the Real Estate

Agents Act 2008

BETWEEN OLIVER SALT AND CHRISTIAN WILLIAM

KELLARAppellants

AND THE REAL ESTATE AGENTS AUTHORITY

(CAC 2103) First Respondent

AND CHRISTOPHER THOMAS AND

AILEEN CONNOLLEY Second Respondents

Hearing on the papers

Tribunal: C A Sandelin (Deputy Chairperson)

G J Denley (Member) P N O'Connor (Member)

Representation:

The appellants: M Parker and T Bielby

The first respondent: R W Belcher
The second respondents: Self Represented

DECISION
Dated 18 November 2022

INTRODUCTION

[1] Oliver Salt and Christian Kellar (the Appellants) have appealed pursuant to s 111 of the Real Estate Agents Act 2008 (the Act) from a decision of Complaints Assessment Committee 2103 (the Committee) finding the Appellants guilty of unsatisfactory conduct for failing to disclose relevant information to Christopher Thomas and Aileen Connolley (the Second Respondents).

BACKGROUND

- [2] The Appellants are licensed salespeople under the Act, employed by South Island Commercial Limited trading as Colliers International.
- [3] On 24 August 2018, Mr Salt entered into a general agency agreement with JJH Investments Limited as vendor (JJH) to sell a commercial property located in Wainoni, Christchurch (the Property). The Property was divided into two units and was jointly marketed by the Appellants.
- [4] In early December 2018, the Second Respondents were introduced to the Property by Mr Kellar and expressed interest in purchasing it if it was fully tenanted. At that time there was only one tenant, therefore one unit was vacant.
- [5] On 4 December 2018, Newdia Construction Limited (NCL) entered into an agreement to lease the vacant unit for an initial term of three years with a right of renewal for a further two years (the Lease).
- [6] The relevant provisions of the Lease were that NCL would pay:
 - (a) an annual rental of \$30,000 plus GST; and
 - (b) 100 per cent of a pro-rata share of the outgoings (attributable to the vacant unit), estimated to be \$5,000.
- [7] An undated side agreement was also entered into by JJH and NCL (the Side Agreement), which provided that:

JJH agreed to pay the following:

- 75 per cent of the outgoings in the first year of the agreement;
- 50 per cent of the outgoings in the second year of the agreement; and
- NCL agreed to pay 100 per cent of the outgoings in the third year

- [8] The effect of the Side Agreement was to reduce NHL's liability for outgoings under the Lease. We would expect that a prospective purchaser, if they were aware of the Side Agreement, would seek to have the purchase price adjusted to reflect the loss of return on the Property as a result of the arrangement between JJH and NCL.
- [9] The Lease was prepared by Mr Salt and he was aware of the Side Agreement. However, the Side Agreement was not referred to in the Lease.
- [10] Following the execution of the Lease, Mr Kellar advised the Second Respondents that the Property was fully tenanted.
- [11] The Property's marketing material was updated as follows:

 Unit 2 leased for \$30,000 + GST and OPEX (new three year lease).
- [12] Despite the effect of the Side Agreement being that the OPEX would not be received in full by the purchaser of the Property, neither Mr Kellar nor Mr Salt specifically drew it to the attention of the Second Respondents, either orally or in writing.
- [13] On 14 December 2018, the Second Respondents entered into an agreement to purchase the Property with JJH (the ASP). The ASP contained a 10 day due diligence clause for the sole benefit of the Second Respondents.
- [14] The ASP also included a tenancy schedule which recorded the total net rental for NCL as \$30,000. There was no reference to the Side Agreement in the ASP.
- [15] On 24 January 2019, during the due diligence period, Mr Kellar sent a copy of the Lease to the Second Respondents with a copy of the Side Agreement included as one of its pages. The Second Respondents forwarded the document to their solicitor.
- [16] There is a dispute about whether the Side Agreement was separated from the Lease by several blank pages. Neither the Second Respondent nor their solicitor saw the Side Agreement with the Lease.
- [17] The ASP became unconditional on 30 January 2019 and settlement took place on 7 February 2019. Neither of the Appellants advised the Second Respondents about the Side Agreement, orally or in writing, prior to the ASP becoming unconditional.
- [18] No allowance was made, or credit given, in the settlement statement for the reduction in OPEX payments from NCL as a result of the Side Agreement.

[19] Following the ASP becoming unconditional, the Second Respondents had several telephone conversations with the Appellants relating to the issues surrounding the Side Agreement and its disclosure by the Appellants. These conversations were recorded by the Second Respondents.

THE COMPLAINT

- [20] On 11 June 2020 the Second Respondents complained to the Real Estate Agents Authority (the Authority) that (inter alia):
 - (a) The Appellants did not disclose the Side Agreement in any discussions between the Second Respondents and the Appellants prior to the ASP becoming unconditional.
 - (b) The Appellants did not disclose the Side Agreement when representing the advertised return on the Property.
- [21] The Committee decided to inquire into the complaint.

COMMITTEE DECISION

Substantive decision

- [22] The Committee determined that the Appellants had engaged in unsatisfactory conduct pursuant to ss 72 and 89(2)(b) of the Act.
- [23] In particular, the Committee found as follows:
 - (a) That the Appellants did not disclose the Side Agreement both prior to and during the negotiations relating to the ASP. In fairness, the Side Agreement should have been disclosed because of its impact on the Property's net return. As a result the Appellants were in breach of rr 6.2 and 6.4 of the Real Estate Agents Act (Professional Conduct and Client Care) Rules 2012 (the Rules).
 - (b) By withholding information in relation to the reduction in OPEX payments by way of the Side Agreement, the advertised return of \$60,000 net per annum could not be achieved. If the Side Agreement had been disclosed, the Second Respondents could have taken steps to ensure that its effect was reflected in the settlement statement. As a result, the Committee found again that the Appellants were in breach of Rules 6.2 and 6.4 of the Act.

Penalty decision on Orders

- [24] On 1 April 2022, the Committee ordered that the Appellants:
 - (a) be censured; and
 - (b) undergo training within three months by completing CPD 2022 Topics: (1) Commercial Sales and Leasing – Ethics; and (2) Disclosure Obligations to your Client and Customer, within three months from the date of this decision.
- [25] In its Decision on Orders, the Committee found further as follows:
 - (a) The manner in which the Side Agreement was provided was "unusual" in that both the Second Respondents and their solicitor did not see it attached to the ASP because the Side Agreement was separated by a number of blank pages.
 - (b) By inference the Appellants knew there were a number of blank pages between the Lease and the Side Agreement.
 - (c) The most aggravating feature was that the Appellants knew about the Side Agreement before the Second Respondents entered into the ASP.
 - (d) The Appellants had opportunities to disclose the Side Agreement but did not do so.
 - (e) The conduct by the Appellants was "disingenuous", as the Appellants had a duty of care to provide the information about the Side Agreement in fairness to the Second Respondents.
 - (f) The Appellants "knew there was a credit" to be given by JJH to the Second Respondents on settlement and that credit was not disclosed by the Appellants.

APPEAL

Substantive decision

- [26] The Appellants are appealing against the Committee's decision finding unsatisfactory conduct on the grounds that (in summary) the Committee erred for the following reasons:
 - (a) The Committee was wrong to conclude that the Appellants had withheld information about the Side Agreement, which was ancillary to the purchase of the Property, when in fact the Side Agreement was provided to both the Second Respondents and their lawyer well within the due diligence timeframe.
 - (b) The Committee wrongly found that the Appellants withheld information about a credit offered by JJH to the Second Respondents as purchasers to offset the financial impact of the Side Agreement, when there was no evidence before the Committee that the Appellants had knowledge of that arrangement.
 - (c) The Committee placed an undue onus on the Appellants as licensees and overlooked the obligations of the Second Respondents and their legal advisors to look after the Second Respondents' interests and negotiate with JJH and their prospective tenants.
 - (d) The Committee's findings that the Appellants withheld information about the Side Agreement which materially affected the return on the Property is incorrect, and the Committee's characterisation of the Appellants' actions in that regard has no factual basis.
 - (e) The Committee did not give any proper weight to the Appellants' explanations on various matters.

Penalty decision on Orders

- [27] The Appellants appeal against the Committee's penalty orders on the basis that, if the Tribunal upholds the Committee's decision, it "does not warrant censure or a "black mark" on the Appellants' respective disciplinary records".
- [28] The Appellants also confirm in their reply submissions that they are also appealing against the orders to undertake further training.

JURISDICTION AND PRINCIPLES

- [29] This is an appeal pursuant to s 111 of the Act.
- [30] The appeal is by way of a rehearing.¹ It proceeds on the basis of the evidence before the Committee, though leave can be granted to admit fresh evidence.² After considering the appeal, the Tribunal may confirm, reverse, or modify the determination of the Committee.³ If the Tribunal reverses or modifies a determination, it may exercise any of the powers that the Committee could have exercised.⁴
- [31] This appeal is against the determination of the Committee under s 89(2)(b) in its finding that the Appellants engaged in unsatisfactory conduct. It is a "general appeal". The Tribunal is required to make its own assessment of the merits in order to decide whether the Committee's determination is wrong.⁵ An appellant has the onus of showing on the balance of probabilities that their version of the events is true and hence the Committee is wrong.⁶
- [32] Section 72 of the Act provides as follows:

72 Unsatisfactory conduct

For the purposes of this Act, a licensee is guilty of unsatisfactory conduct if the licensee carries out real estate agency work that—

- (a) falls short of the standard that a reasonable member of the public is entitled to expect from a reasonably competent licensee; or
- (b) contravenes a provision of this Act or of any regulations or rules made under this Act; or
- (c) is incompetent or negligent; or
- (d) would reasonably be regarded by agents of good standing as being unacceptable.
- [33] The relevant rules upon which the Committee found that the Appellants had failed to abide by their professional obligations and thereby engaged in unsatisfactory conduct are rr 6.2 and 6.4 of the Rules which are set out as follows:

6 Standards of professional conduct

...

¹ Real Estate Agents Act 2008, s 111(3).

Nottingham v Real Estate Agents Authority [2017] NZCA 1 at [81] & [83].

³ At s 111(4).

⁴ At s 111(5).

⁵ Austin, Nichols & Co Inc v Stichting Lodestar [2007] NZSC 103, [2008] 2 NZLR 141 at [5] & [16] and Edinburgh Realty Ltd v Scandrett [2016] NZHC 2898 at [112].

⁶ Watson v Real Estate Agents Authority (CAC 1906) [2021] NZREADT 37 at [22].

6.2 A licensee must act in good faith and deal fairly with all parties engaged in a transaction.

...

6.4 A licensee must not mislead a customer or client, nor provide false information, nor withhold information that should by law or in fairness be provided to a customer or client.

SUBMISSIONS

The Appellants

- [34] The Appellants submit that there is no factual basis for saying they "withheld" any material or information during the sale process.
- [35] They submit that it is undisputed that Mr Kellar provided the Lease, including the Side Agreement, to the Second Respondents and their solicitor before the ASP became unconditional. They submit that it is immaterial that Mr Kellar did not orally discuss the precise detail of the Lease with the Second Respondents before the ASP went unconditional.
- [36] The Appellants submit that the ASP contained a substantial due diligence clause in favour of the Second Respondents. They submit that the due diligence clause supported the principle of caveat emptor by placing a legal obligation on the Second Respondents and their solicitor to obtain and review the information provided during that period. The Appellants submit that it is the failure of the Second Respondents' solicitor to review the content of the documents which has resulted in them ending up in the position they find themselves in.
- [37] It is submitted by the Appellants that it is beyond the scope of the Act and excessively burdensome to place an onus on the Appellants as licensees to take on an advisory role. They submit that that duty falls on the solicitor advising a purchaser and the Committee erred in not taking into account a failure on the part of the Second Respondents' solicitor to properly review all the material provided and discharge their duties and obligations during due diligence.
- [38] The Appellants submit that there is no evidence whatsoever to support the Committee's finding that there was an intentional effort on their part to obfuscate or hide the Side Agreement at the back of the Lease when providing it during due diligence.
- [39] It is submitted by the Appellants that none of the copies of the Lease provided in evidence to the Committee and the Tribunal contain a document with blank pages between the last page of the Lease and the Side Agreement and there is no document

in evidence to support the Committee's finding that the Side Agreement had been provided to the Second Respondents in an "unusual" manner. The Appellants submit that despite this lack of evidence, the Committee has accepted the evidence of the Second Respondents without giving any weight to the Appellants' evidence that there were no blank pages separating the documents.

- [40] The Appellants consequently submit that the conclusion drawn by the Committee on this issue is factually incorrect and not supported in any way by the contemporaneous documentation. They submit that the onus is on the Respondents to support their assertions with cogent evidence which they have not done.
- [41] The Appellants submit that they specifically stated in their response to the Authority that they were not aware of any credits from JJH to be made at settlement and that this is uncontradicted by any evidence. They submit that any reference to credits by the Appellants during the phone conversations with the Second Respondents after the ASP had become unconditional were generic and did not suggest any arrangement between JJH and prospective purchasers.
- [42] It is submitted by the Appellants that their comments were made as general comments in relation to the usual practice undertaken by solicitors when preparing for settlement, that is, that it is normal practice for solicitors to apply any required credits to a settlement statement. They submit that licensees are not privy to the preparation of a settlement statement and therefore do not know whether such credits have been allowed for or not.
- [43] They submit that whilst there is an obligation on licensees to disclose material information, a licensee's professional obligation under r 6.4 not to mislead or provide false information or to withhold information, is not a substitute for a purchaser's own due diligence.
- [44] Further, the Appellants submit that if the Tribunal upholds the Committee's finding that the Appellants breached r 6.2, any breach by the Appellants is at such a low level that it should not result in a finding of unsatisfactory conduct.

The Authority

[45] The Authority submits that the Committee was correct to find that an inference was to be drawn that the Appellants knew that there were a number of blank pages between the Lease and the Side Agreement, and decided that it didn't matter, and the Second Respondents' lawyer would find it when doing due diligence.

- [46] They submit that it was this conduct, not a generalised allegation of non-disclosure, that the Committee found to be unsatisfactory.
- [47] The Authority submits that it was open to the Committee to make factual findings in favour of the Second Respondents in relation to the following:
 - (a) There is no dispute that the Appellants knew about the Side Agreement, but did not disclose it, prior to the ASP being executed by the parties, even though the Appellants submit that is immaterial because the Side Agreement was disclosed before the ASP went unconditional.
 - (b) Although the ASP and Side Agreement contained in the bundle of evidence before the Committee does not have blank pages separating the Lease and the Side Agreement, the Second Respondents were clear about the "blank pages" in their evidence. They submit that this is also consistent with neither the Second Respondents nor their solicitor noticing the Side Agreement during due diligence. The Appellants' responses to the REA investigator did not counter the assertion by the Second Respondents relating to the blank pages.
 - (c) The context of the marketing of the Property is important as the Property was marketed on the basis that the NCL lease was for "\$30,000 + GST and OPEX. The email providing the Lease and the Side Agreement dated 24 January 2019 only referred to the Lease and not the Side Agreement and if it had specifically referred to the Side Agreement this may have more properly brought its existence to the Second Respondents' attention.
- [48] It was noted further by the Authority that the Second Respondents' submissions on appeal now refer to the Side Agreement being behind "empty schedule pages and the end page", "blank schedule pages", and the Side Agreement being "inserted inside the back page" as opposed to their earlier evidence that the Side Agreement was inserted between "blank pages". They submit that on the evidence available to it, the Committee was still correct to accept the Second Respondents' evidence as to the blank pages.
- [49] The Authority submits that it was open to the Committee to find that the Appellants' conduct was unsatisfactory as the Side Agreement ought to have been disclosed before the ASP was entered into to adequately protect the Second Respondents as consumers and in the interests of fairness. Also the net return on investment was a key part of the sale.

- [50] They submit that the Appellants could have made express reference to the Side Agreement being included with the Lease (regardless of whether it was separated by blank pages) but they did not.
- [51] The Authority submits that the Committee rightly found that the Side Agreement was unfairly withheld during the negotiation phase and that this failure on their part falls short of the standard a reasonable member of the public is entitled to expect from a reasonably competent licensee.
- [52] It is submitted by the Authority that it was open to the Committee to find that the Second Respondents may have been able to claim a credit from JJH to mitigate the effect of the Side Agreement. They refer to the various recorded telephone conversations whereby the Appellants stated that their understanding was that the net return from the Lease was \$60,000 and that they expected JJH to give the Second Respondents a "credit" on settlement. They submit that these statements by the Appellants were specific and record the Appellants' understanding of how the financial implications of the Side Agreement would be addressed.
- [53] They submit that the failure by the Appellants to disclose this information to the Second Respondents fell short of the conduct a reasonable member of the public is entitled to expect from a reasonably competent licensee and was conduct that would be regarded by agents of good standing as being unacceptable pursuant to s 72(a) and (d) of the Act.

The Second Respondents

- [54] The Second Respondents do not dispute that both they and their solicitor missed the Side Agreement but submit that the Side Agreement although provided in the Lease "was deliberately put behind empty schedule pages and the end page". The submit that this is how it was missed by themselves and their solicitor.
- [55] They further submit that the "so called credit offered by the vendor was withheld and never discussed" between them and the Appellants. They submit that their knowledge of the "credit" only came to light when they spoke to Mr Kellar after the ASP became unconditional and that the evidence of that is before the Tribunal in the form of the recorded telephone conversations.

- [56] They submit that the Side Agreement was always going to impact on the return on the Property and that by not discussing this with them, the Appellants have withheld this important information. They submit that they were consequently misled into believing the advertised return was \$60,000 net + GST and OPEX.
- [57] The Second Respondents submit that as a result of withholding this information from them, the Appellants have breached their duty of care to the Second Respondents and to act fairly.

DISCUSSION

Was the Committee correct to find that the Appellants withheld disclosure of the Side Agreement to the Second Respondents during the negotiations of the ASP?

- [58] The Committee, as referred to above, found that the Appellants knew of the Side Agreement and had a number of opportunities to disclose it to the Second Respondents but failed to do so. They found further that the manner in which the Side Agreement was provided was "unusual" in that both the Second Respondents and their solicitor did not see it attached to the ASP because the Side Agreement was separated by a number of blank pages.
- [59] The Committee found that the failure by the Appellants to disclose the Side Agreement during the negotiation phase prevented the Second Respondents from making an informed decision on the purchase of the Property. They found that the Appellants had a duty of care to provide this information in fairness to the Second Respondents.
- [60] As referred to above, the Committee found that an inference could be drawn that the Appellants knew there were a number of blank pages between the Lease and the Side Agreement and that the Appellants decided that it did not matter as the solicitor would find it during due diligence.
- [61] Mr Kellar's email of 24 January 2019 to the Second Respondents failed to mention the Side Agreement when attaching the leases for each tenant. There were some empty schedule pages attached to the Lease but on the evidence before us we cannot conclude that there were any blank pages inserted by the Appellants with the intention to mislead the Second Respondents.

- [62] However, the failure by the Appellants to expressly draw the Side Agreement and its financial implications to the attention of the Second Respondents prior to the ASP being entered into, affected the Second Respondents' knowledge of the return on the Property.
- [63] The Property was advertised as having a specific return. The marketing was updated after Unit 2 was let and the Side Agreement entered into, yet the marketing stated that Unit 2 was let at "\$30,000 + GST and OPEX". By failing to alert the Second Respondents to the Side Agreement and the effect it would have on the return on the Property, the Committee found that the Appellants were in breach of their obligations to the Second Respondents pursuant to rr 6.2 and 6.4 of the Rules. We are not persuaded that the Committee was wrong to reach this conclusion.
- [64] It was not enough for the Appellants to simply rely on the solicitor for the Second Respondents to locate the Side Agreement and inform the Second Respondents of the consequences in relation to the rental return.
- [65] We agree with the submissions made by the Authority. The expected return on an investment in commercial property is of fundamental importance to a prospective purchaser of a property. That the Appellants were aware of this is shown by their updating of the marketing information after Unit 2 was let. Yet they failed to disclose that the vendor had entered into the Side Agreement, which meant that the return on the Property was not going to be as advertised.
- [66] The failure by the Appellants to draw the Side Agreement to the attention of the Second Respondents before the ASP was executed fell short of the standard a reasonable member of the public is entitled to expect from a reasonably competent licensee and conduct that would be reasonably regarded by agents of good standard as being unacceptable.⁷
- [67] Accordingly, this ground of appeal must fail.

Was the Committee correct to find that the Appellants knew about and failed to disclose that the Second Respondents may have been able to claim a credit from JJH to mitigate the effect of the Side Agreement?

⁷ Real Estate Agents Act 2008, s 72(a) and (d).

- [68] The Committee concluded on the evidence that the Appellants knew there was a credit and that it was not disclosed by them to the Second Respondents.
- [69] The recorded telephone calls between the Appellants and the Second Respondents make it clear that the Appellants were aware that a potential credit was available to be paid by JJH to the Second Respondents to mitigate the financial effect of the Side Agreement. The Appellants clearly understood that the net return from the Lease was \$60,000 and, as a result of the Side Agreement with NCL, the Second Respondents would not be receiving that full return and therefore should be subsidised by JJH.
- [70] During the phone calls, Mr Kellar made statements as follows:
 - (a) "From my perspective, that's what we were selling it to you on the \$60,000 net...",
 - (b) "Obviously you bought on a net position and that's obviously changing...",
 - (c) "Yeah, that's certainly what my understanding was that the vendor was going to take care of that side agreement and that was my understanding. I never had anything specifically in writing from the vendor but that was my understanding and Olly sort of dealt with him on that side of things. He obviously did the lease negotiations with that chap..."
 - (d) "It certainly was my understanding that on the settlement that was supposed to occur...",
 - (e) "I mean as I mentioned earlier, my understanding I suppose was that the vendor was going to provide some sort of credit, but my opinion doesn't mean a hell of a lot. We usually pass on all the information to the lawyers for both the purchaser and the vendor and during due diligence, they talk about all the points that are in the lease and also in the documentation and come to an agreement from there and reflect it in their settlement statement when you come to settle.",
 - (f) "... and we don't have that in writing with the vendor unfortunately. I guess that's what the vendor's lawyer is saying, it was in the lease.",
 - (g) "I had thought the vendor was supposed to credit the tenant or to yourself. That was my understanding. I was surprised when I heard that hadn't taken place...".
- [71] The Appellants submit that these comments were generic and did not suggest any arrangement as between JJH and prospective purchasers.
- [72] Whilst these comments were made retrospectively, after settlement had taken place, we find that the Second Respondents were aware prior to the ASP being signed, that the existence of the Side Agreement would likely lead to a credit being provided by JJH to the Second Respondents on settlement.

- [73] The Committee found that the Appellants should have made the Second Respondents aware of the availability of a financial reimbursement as a result of the terms of the Side Agreement as it had a material effect on the advertised net return on the Property. We are not persuaded that the Committee was wrong in coming to this conclusion.
- [74] The Appellants' reliance on the Second Respondents' solicitor to advise them as to claiming an adjustment to the settlement price to mitigate the effect of the Side Agreement did not constitute compliance with their duty to the Second Respondents. In order to comply with their duties to the Second Respondents under rr 6.2 and (in particular) 6.4, the Appellants had a duty to pass on their knowledge of the Side Agreement, its effect on the expected return on the Property, and alert them to the possibility of an adjustment to the purchase price on settlement.
- [75] Accordingly, this ground of appeal must also fail.
- [76] Further, it will be apparent from our findings set out above that we are not persuaded that the Appellants' breaches of the Rules are at an "extremely low level", as submitted by them, so that an unsatisfactory conduct finding is not appropriate.

PENALTY APPEAL

- [77] The Appellants have also appealed the Committee's decision on orders dated 1 April 2022.
- [78] The Appellants submit that if the Tribunal dismisses the Appeal, the conduct does not "warrant censure or a 'black mark' on the Appellants' respective disciplinary records."
- [79] They are also appealing against the orders to undertake further training.
- [80] The Appellants do not contest the Authority's submissions that an appeal against penalty orders is the exercise of a discretion, in which case the Appellants must persuade us that the Committee made an error of law or principle, took into account irrelevant matters or failed to take account of relevant matters, or that the decision is plainly wrong.
- [81] The Appellants have not provided any submissions to persuade us that there was any legal error in setting the penalty orders or that they are plainly wrong.

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[82] The Appeal is dismissed, the Committee's decisions are confirmed.

[83] Pursuant to s 113 of the Act, the Tribunal draws the parties' attention to s 116 of the Act, setting out the right of appeal to the High Court.

C A Sandelin Deputy Chairperson

G J Denley Member

P N O'Connor Member