

Our reference: CWN LTR/k



21 April 2015

Attention: Grant David
Chapman Tripp

Dear Grant

Valuation Methodology

I refer to the valuation reports provided for three woolscourer properties in Hawkes Bay and Christchurch, prepared by []

I have not inspected the properties but perused the three reports, Kaputone Woolscour Limited (KWS), and Hawkes Bay Woolscour Limited (HBWS) and Whakatu Woolscour Limited (WWS). You have asked me to comment on the valuation methodology. These reports were prepared during 2014 for financial and accounting purposes. The values contained in these reports show no material change in value today.

I am now advised the circumstances have changed and the use of the properties going forward is to be different, with a covenant that would expressly exclude the use of the premises as a woolscour and related activities for a period of 50 years.

Therefore each property needs to be valued as a site formerly used as a wool scour but now requiring alternative use, rather than an operating wool scour. The use of the provided valuations as a valuation of a disused woolscour is challenging due to the following factors:

- ◆ The limited market evidence provided for comparable specialised properties;
- ◆ Accurate identification of potential or alternative uses of the property;
- ◆ The limited examination of the impact of the special purpose nature of the scour on limiting appeal to alternative users and consequently achieving lower rental levels.

As a consequence of these changed circumstances, I consider a high degree of reliance needs to be placed on the Alternative use - Vacant possession valuation methodology in order to arrive at the most accurate valuation.

To carry out an accurate valuation a Detailed Engineering Evaluation (DEE) would be required. This would involve a structural engineer providing a report containing information about vacant possession, seismic effects, and report on contamination.

Alternative Use Value – Vacant Possession

In order to ascertain a logical property value for disused property of this nature, one needs to understand the market and range of potential purchasers for such facilities.

I am told that the current owners claim to have "each invested significant time, effort and money in each of the sites to set them up in a manner that reflects the parties belief is best for scouring." That "best for scouring" use

will no longer be available owing to restrictive covenants to be imposed on the three properties expressly to prevent them being used for wool scouring and related activities for 50 years.

Especially in light of that restriction, the difficulty is identifying the added value of the improvements to the land for alternative use – vacant possession. In the case of alternative use – vacant possession,

The size and value of buildings also creates challenges in terms of identifying likely occupiers now that the present occupier is no longer there. Whatever the use, a change of use would generally require a resource consent before any development or change of use may proceed.

General valuation considerations that need to be considered for the alternative use include:

- ◆
- ◆
- ◆
- ◆ Size of building and suitability for further internal subdivision.
- ◆ Degree of specialisation and obsolescence.
- ◆ Resource consent requirements.
- ◆ Building consent requirements.
- ◆ Compliance costs.
- ◆ Market for alternative use.
- ◆ Marginal location.
- ◆ Need to remove specialised function for alternative tenant.
- ◆ Scale of investment.
- ◆
- ◆

Three of the considerations I consider most important are expanded below.

KWS Report

The KWS site report notes the property [

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[
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The report states [

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HBWS Report

The HBWS property report notes that [

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WWS Report

The WWS report states that [

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KWS Report

The KWS report is prepared on the understanding [

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HBW Report

The HBW report indicates

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[

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WWS Report

The WWS report notes [

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[

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KWS Report

The KWS report assumes [

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[

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HBWS Report

The HBWS report notes [

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[

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[

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WWS Report

The WWS report indicates the rental assessment is prepared on the basis [

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[

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[

Given to the

The buildings

Conclusion

As noted,

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In light of this it does not appear that the Commerce Commission's adoption of plus or minus 10% for a margin for contingencies is appropriate. [

Further, any attempt to identify the bottom of its range by which the values could decrease becomes increasingly speculative, the longer these contingencies exist, the overall 20% range suggested by the Commerce Commission is possible. Importantly however, there is nothing to indicate that the top of that range should be at any point above the valuations given in the reports.

It would appear that the focus for the initial valuations was undertaken for financial reporting based on the existing use.

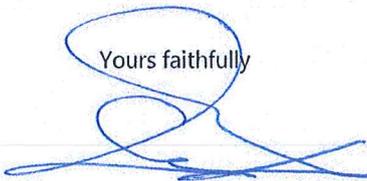
On the basis the properties will no longer be available for their existing use ("highest and best") being that of "scouring" use; in our view the valuations prepared for financial reporting may be based on an Alternative use value – vacant possession basis.

Our recommendation is that the valuations should be reviewed on the basis of:

- ◆ Vacant possession for alternative use.
- ◆ By considering more detailed information to the

Further advice needs to be obtained from suitably qualified experts in these areas.

Yours faithfully



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