Our reference: CWN LTR/k

23 June 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 Turley & Co Ltd and Knight Frank.

Background

I have been actively involved in the property industry as a valuer for more than 40 years.

In 1973 I set up in private practice with the valuation property advisory company, Simpson, Horsley, Nyberg & Associates, which over a period of time grew to become Darroch Limited then part of the global DTZ group known as DTZ then back to Darroch.

My experience covers, on a national basis, a wide variety of mainly commercial/industrial property types in both the public and private sectors. I am involved with specialised asset valuation assignments some of which encompass tertiary institutions, energy, hospitals, supermarkets, civic buildings and meat processing plants. Those assignments have been completed for a variety of purposes including financial reporting, insurance, market value, portfolio asset values, methodology development, arbitrations, litigation support, expert witness and Treaty of Waitangi settlements.

Valuation Methodology

I have not inspected the properties but perused the three valuation reports for 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 May/June 2015 for market valuation purposes vacant possession in accordance with the Commerce Commission brief including:

- Consideration of market value effect of proposed restrictive covenants which expressly excludes the use of the premises as a woolscour and related activities for a period of 50 years.
- Seismic and environmental factors.

Therefore each property has been valued as a site formerly used as a wool scour but now alternative use (vacant possession). Both valuers in their valuations highlight [ ]

- [
-
-
-]

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In my earlier report I noted that
[

]

Valuation conclusions can vary between valuers. The valuations carried out by Knight Frank and Turley are both examples of best practice. The valuation approaches taken [ ] are utilised correctly in order to ascertain the most probable market values. The methods used have considered the [ ] nature of specialised properties and their [ ].
[ ]

All properties are in areas of high seismic risk zones,
[ ] (See **Appendix 1**).

Alternative Use Value – Vacant Possession

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

In my earlier report I identified general valuation considerations that need to be considered for the alternative use (vacant possession) 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.
- [
-]

The valuation reports have covered most of these considerations but the first three noted I consider most important and are identified further.

Set out below are extracts from the three valuation reports
[ ]

1. [ ]

KWS Report

[

]

HBWS Report

[

]

WWS Report

[

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2. [ ]

[

]

KWS Report

[

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Additional comments

- *[*
- *]*

HBW Report

[

]

WWS Report

"[

]

3. Leasing Arrangements

KWS Report

[

]

HBWS Report

The vacant possession valuation has been completed
[ ]

On this basis the market value [ ].

The vacant possession value
[ ]

WWS Report

The valuation has been completed
[ ]

On the basis the market value is set at $[ ] which accounts for [ ]

The vacant possession value deducts for profit and risk effort and skill, let up period, rental inducements and leasing commissions.

Conclusion

As noted,
[
]

- [ ]
- [ ]
- [ ].

The focus for the valuations was undertaken for the purpose of alternative use vacant possession.
[ ]

- [ ]
- [ ]

[ ]

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

As to the range that should be built into a valuation [ ] I repeat my previous observation in my earlier submissions, that is
[ ]

Yours faithfully

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APPENDIX 1 - EARTHQUAKE-PRONE BUILDINGS

In August 2013 the Government decided to introduce legislation to change the system for managing earthquake-prone buildings.

The changes follow recommendations by the Canterbury Earthquakes Royal Commission and a review by the Ministry of Business, Innovation and Employment (MBIE).

The Government will amend the Building Act (2004). It is likely there will be a transition period before the law takes effect while detailed implementation issues are worked through. MBIE will be working with territorial authorities and engineers on implementing changes.

Updates to the legislation were proposed in May 2015. A Bill to make these changes will be considered by the select committee with passage expected later this year. Key changes:

- To identify those that are earthquake-prone, territorial authorities will have to complete a seismic assessment of all non-residential buildings and all multi-unit, multi-storey residential buildings in their areas. All earthquake-prone buildings will then have to be strengthened, or demolished.
- Currently New Zealand has a 'blanket' rule where earthquake-prone buildings must be assessed within five years and strengthened within 15 years (i.e. assessment by territorial authorities within five years and strengthening within 15 years of assessment). Proposed changes will introduce three risk zones (low, medium and high). New timeframes for assessment and to strengthen/demolish are shown below:

	Strengthening Timeframes (years)	
Risk Zones	**Assessment**	**Strengthen/Demolish**
Low		
Northland, Auckland, Oamaru, Dunedin	15	35
Medium		
Hamilton, Tauranga, Rotorua, New Plymouth, Wanganui, Nelson, Timaru, Invercargill	10	25
High		
Gisborne, Napier/Hastings, Palmerston North, Wellington, Blenheim, Christchurch	5	15

- A publicly accessible register of earthquake-prone buildings will be set up by MBIE.
- Certain buildings will be prioritised for assessment and strengthening such as:
- Buildings likely to have a significant impact on public safety, e.g. those with potential falling hazards;
- Strategically important buildings, e.g. those on transport routes identified as critical in an emergency.
- Owners of some buildings will be able to apply for exemptions from the national timeframe for strengthening. These will be buildings where the effects of them failing are likely to be minimal and could include farm buildings with little passing traffic.
- Owners of earthquake-prone category 1 buildings (listed on the register of historic places under the Historic Places Act 1993) and those on the proposed National Historic Landmarks List, will be able to apply for extensions of up to 10 years to the national timeframe for strengthening.
- There will be a requirement to strengthen earthquake-prone buildings when completing substantial alterations.

Earthquake-prone buildings are those assessed at 33% or less of the New Building Standard (NBS) for seismic performance. Earthquake risk buildings are those which have a rating of between 34% and 67% of NBS.

The Building Act 2004 requires councils to adopt a policy for earthquake-prone buildings to ensure all such buildings are strengthened to at least meet the minimum prescribed standard (or be demolished).

Once a building is classified as earthquake-prone, it will need to be strengthened, or if appropriate, demolished. Local Authorities will, however, encourage owners of earthquake-prone buildings to strengthen them to the greatest extent possible, particularly for buildings serving a specific post-disaster function.

Comparative studies of historical structural standards to NZS1170.5:2004 (NBS) have shown that buildings originally designed or strengthened to the pre-1995 Codes are likely to be either earthquake risk or earthquake-prone unless there are mitigating circumstances.

This buildings are all within High Risk Areas.