

Attachment A – Proposed input methodology amendments

BARNZ SUGGESTED CHANGES

1. **Clause 1.4 of the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010 (Commerce Commission Decision 709, 22 December 2010) is proposed to be amended by:**

- a. **Replacing the following definitions, with the following:**

MVAU means the market value of land in its **highest and best alternative use** or uses determined in accordance with Schedule A;

valuation and property standards means the following material which is hereby incorporated by reference, subject to any amendments to, or replacement of, the material in accordance with Schedule 5 of the Act:

- (a) IVS 101 – Scope of Work;
- (b) IVS 102 – Implementation;
- (c) IVS 103 – Reporting;
- (d) ANZVGN 1 - Valuation Procedures Real Property;

- b. **Adding the following new definition:**

special assumption has the same meaning as defined in IVS 1012 – [Scope of Work Implementation](#)

Comment [KC1]: This definition for the IM itself is sufficient, however the key explanations of what constitutes an MVAU valuation previously contained in section A2 of Schedule A have been omitted from the new Schedule A, which leaves a vacuum in which there is no clear definition of an MVAU valuation. In particular, paragraphs 1, 2 and 3 of A2 previously formed the core of what constituted an MVAU valuation, and have not been carried forward in the proposed new Schedule A. This significantly reduces certainty over what constitutes an appropriate alternative use. Given the alternative use plan forms the foundation on which the valuation sits any reduction in guidance over selection of the alternative land use plan runs counter to s52R and is not helpful.

2. **Schedule A of the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010 (Commerce Commission Decision 709, 22 December 2010) is proposed to be amended by replacing it with the following:**

A1 Overview

- (1) This schedule sets out the mandatory requirements for a **valuer** to apply when undertaking a valuation of **land** held by an **airport** for the purposes of this determination.
- (2) This schedule contains the following clauses:

Clause	Content
A1	Overview
A2	MVAU definition
A2	Professional valuation framework
A3	Valuation requirements
A4	Special assumptions
A5	MVAU valuation steps

Comment [KC2]: Refer previous comment. This needs to reflect previous A2 para 1,2 and 3 and anything-else significant from A2 not otherwise carried forward elsewhere in Schedule A.

A2 MVAU definition

- (1) MVAU has been defined as meaning the market value of land in its highest and best alternative use or uses.
- (2) This is equal to the likely market price paid for the land by a developer or investor. It should be determined in accordance with the formula- *gross realisations or estimated value of the land - allowance for applicable development costs.*
- (3) For the purpose of subclause (1)(2), 'development costs'-
- (a) includes all relevant construction costs, planning costs, holding costs and the developer's or investor's profit and risk; and
- (b) excludes-
- (i) the value of costs required to convert the land for the supply of specified airport services; and
- (ii) any allowance for remediation expenditure.
- (4) Highest and best alternative use means the most probable use of airport land, other than for supplying specified airport services, or a use to the extent that it is influenced by specified airport services which is physically possible, appropriately justified, legally permissible, credible, financially feasible, and results in the highest valuation of the land in question.

A2A3 Professional valuation framework

- (1) Subject to subclauses (2), (3) and (4), **valuers** must undertake an **MVAU** valuation in accordance with the **valuation and property standards, subject to any modifications, additions, or variations to those standards specified in this Schedule**
- (2) **Valuation standards** with 'mandatory practice' status must be adhered to by **valuers**.
- (3) **Valuation guidance** with 'best/good practice' status must be adhered to by **valuers** when reasonably practicable.
- (4) An **MVAU** valuation must be prepared by a **valuer**.
- (5) The **valuer** must -
- (a) base the estimate of value on data and circumstances appropriate to the valuation;
- (b) use appropriate methods and techniques for the estimate of value, which may include the direct sales comparison approach, notional subdivision and residual value approaches and a discounted cash-flow approach based on the cash-flows from the selected alternative use; and

- (c) develop the MVAU valuation with sufficient information to fully support the analysis and conclusions.
- (6) Where the **valuer** is not appropriately experienced or qualified to provide expert opinion on key components of the MVAU valuation then the **valuer** must obtain advice from relevant independent experts, such as (but not limited to) planners, economists, quantity surveyors etc.

A3A4 Valuation requirements

- (1) In undertaking an **MVAU** valuation, the **valuer** must make the **special assumptions** set out in clause A4.
- (2) The **valuer** must, where appropriate, include the likelihood, timing and costs (both direct and indirect if any) of moving from the **special assumption** for land zoning to the zoning required for the development of the land in its **highest and best alternative use** when undertaking the **MVAU** valuation.
- (3) The **valuer** must, where appropriate, set out in the valuation report how they determined the **special assumption** for **land** zoning and the likelihood, timing, and costs (both direct and indirect if any) of moving from the **special assumption** for **land** zoning to the zoning required for the development of the **land** in its **highest and best alternative use**.
- (4) The **valuer** can rely on evidence of sales of land as comparable market-based data only to the extent the sales were unaffected by the supply of **specified airport services** ~~or can be adjusted to remove the impact of the supply of specified airport services on the sale.~~
- (5) The **valuer** can rely on evidence of sales of land to, or by, **airports**, only to the extent the transactions in question occurred on an arm's-length basis and the price and other terms of the sales were unaffected by the supply of **specified airport services** ~~or can be adjusted to remove the impact of the supply of specified airport services on the sale.~~
- (6) The **valuer** must assume an orderly sale of the aggregated **land** (in economically manageable parcels) over such time as would likely be needed to achieve the **highest and best alternative use** of the **land**.
- (7) The **valuer** must give consideration to the physical characteristics of the **land** (including contiguity), existing title and easement arrangements, zoning, any other restrictions or impediments and adjoining **land** uses, when determining the **highest and best alternative use(s)**, so as to maximise the value in the **land's** alternate use(s) and market value.
- (8) All key assumptions and **special assumptions** made in undertaking such a valuation must be disclosed by the **valuer** in the valuation report.
- (9) The **valuer** must explain the reason and the impact on the valuation of any departure from the **special assumptions** set out in this Schedule.

Comment [KC3]: This introduces an unacceptable level of subjectivity.

A4A5 Special assumptions

- (1) The **land** must be valued as an aggregated parcel (which may be made up of multiple titles) of a size equal to that attributed to the **supply of specified airport services**.
- (2) The **land** must be valued as notionally vacant and clear of **airport** related improvements.
- (3) The **land** zoning is the current **underlying zoning or designation of the land zoning or the zoning that is most likely to apply if the airport did not exist**.
- ~~(4)~~ The **land** zoning most likely to apply if the **airport** did not exist must be determined by having regard to the existing zoning of the **land** surrounding the **airport** site or the zoning that applied prior to the land being zoned for aeronautical purposes.
- ~~(5)~~(4) Relevant construction costs, holding costs, **planning and rezoning costs** and the developer's or investor's profit and risk must be included in the **MVAU** valuation.
- ~~(6)~~(5) The costs of converting the land to an **airport** must be excluded from the **MVAU** valuation, including :
 - (a) costs of resource consents for **airport** development;
 - (b) holding costs during **airport** development;
 - (c) costs of earthworks necessary for the formation of the level **airport** platform;
 - (d) costs of any **land** reclamation or dredging;
 - (e) costs of sea-wall or other coastal protection systems;
 - (f) cost of **airport**-specific drainage systems, including retention ponds;
 - (g) professional fees, including those for surveyors, engineers, and planners, with respect to the above-mentioned activities; and
 - (h) any other costs incurred in the conversion of **land** to provide **specified airport services**.
- ~~(7)~~(6) Costs for remediation or demolition expenditure must be excluded from the **MVAU** valuation, including the costs of-
 - (a) demolition, crushing and removal of concreted and sealed surfaces including runways, taxiways, aprons, roading, kerbs, and channels;
 - (b) demolition and debris removal of **airport**-specific buildings and structures including terminals, hangars, fire rescue buildings, control towers, and fuel depots;
 - (c) removing above- and below-ground utilities, including pipelines and cabling required for **airport** specific activities like fuel pipelines, tanks, runway drainage and lighting, and approach lighting; and
 - (d) clean-up of potential site contamination, including contamination occurring through aircraft and maintenance operations by spills of

Comment [KC4]: If the Commission does not accept this approach, the Schedule A should specify the precise land zoning for each of the three airports. Otherwise the amendments to Schedule A will have reduced the certainty for consumers and suppliers regarding the appropriate land valuation, contrary to the s52R purpose of input methodologies.

Comment [KC5]: This is a completely inappropriate option as it would result in a land valuation influenced by the presence of the airport.

aircraft and vehicle fuels, paints/solvents, fire fighting foams, underground and above ground storage tanks, radioactive materials, asbestos, PCBs, pesticides and herbicides or battery acids, or through the operation of waste disposal facilities, vehicle storage, dredging operations, building construction and underground and above ground utility lines/pipes.

A5A6 MVAU valuation steps

- (1) In undertaking an **MVAU** valuation the **valuer** must-
 - (a) establish and compile a schedule of the **land** parcels that are to be included in the **MVAU** valuation;
 - (b) confirm ownership, tenure and aggregated **land** area;
 - (c) ~~apply determine~~ the **special assumption** for **land** zoning;
 - (d) consider and determine the **highest and best alternative use** ~~which must be physically possible, appropriately justified, legally permissible, credible and financially feasible~~;
 - (e) determine the zoning of the **land** for the **highest and best alternative use**, and the likelihood, timing, and cost (both direct and indirect, if any) of moving from the **special assumption** for land zoning to the zoning required for the development of the land in its **highest and best alternative use**;
 - (f) consider resource management (including reserve contribution) requirements, amenities in the area, and access to services;
 - (g) for notional subdivision / residual value approaches-
 - (i) prepare a **land** development plan (in conjunction with a planner ~~and economist~~, where considered necessary by the **valuer**). This should demonstrate the **valuer's** view of the likely **highest and best alternative use** development of the **land**, and provide evidence for the assessment of inputs into the notional subdivision / residual value approaches;
 - (ii) determine market demand for the proposed development and the time period for the sale or realisation of the developed **land** in a notional subdivision or development, including, where appropriate, economic analysis to support the market demand and the time period for the sale or realisation of the developed **land**;
 - (iii) determine the direct costs of developing the **land**; and
 - (iv) determine any indirect costs of developing the **land** e.g. the developer's holding costs, **local authority** rates etc.;
 - (h) undertake market research and obtain comparable sales information to support the alternate **land** uses selected including both block sales

Comment [KC6]: In order to provide certainty for consumers and suppliers BARNZ considers that if the CC moves away from the opportunity cost based approach of using existing zoning and designations as the starting point, then the Commission needs to specify the appropriate zoning assumptions for each of the three airports within Schedule A.

Comment [KC7]: The revised Schedule A has not carried forward the central plank of what guided the selection of the alternative use. Not carrying forward this core of the previous Schedule A will reduce certainty over the selection of the appropriate alternative use. The definition of highest and best alternative use needs to be carried forward into any revised Schedule A, either here, or preferably, through a retained, but shorter, version of the previous section A2.

and developed **land** sales if both a direct sales comparison and notional subdivision / residual value approaches are to be used;

- (i) apply suitable adjusted market evidence to **airport land** as required, and taking account of whether a direct sales comparison or notional subdivision / residual value approaches are to be used;
- (j) reconcile the results of the valuation approaches used and determine a final value for the **highest and best alternative use**; and
- (k) prepare a valuation report, incorporating all disclosures required by the relevant **valuation standards and this Schedule**.