

BELL GULLY

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Commerce Commission

Attention Anthony Stewart

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Cavalier Wool Holdings - Response to issues raised at the Commerce Commission's Conference on 4 - 6 May 2011

In its most recent submissions following the conference held on 4 - 6 May 2011, WSI have submitted additional information in the form of two statements from a Mr G J Horsley and a Mr D Preston in support of the proposition that the value placed on the Kaputone land and buildings by the Receivers is not indicative of the value of the land.

Each of Mr Horsley's and Mr Preston's opinions proceed on the basis that the property is highly specialised and hence the value of the land as a wool scour is materially higher than its value in another use. It is not correct to say the land and buildings are specialised, and the numerous former wool scours which have been sold and are now used in alternative endeavours are indicative of this.

As Mr George stated at the conference, the going concern in this instance is the land and buildings and the property itself will not change in its nature as a result of the transaction or as a result of a change in tenant. Kaputone is a good general purpose industrial site and its value should reflect that.

WSI also state in their submission at paragraph 10.6 that since the 22 February earthquake "most valuations of properties in the Christchurch area have been significantly reduced and discounted due to the effect of the earthquake". While Cavalier Wool Holdings Limited (**CWH**) acknowledges that the earthquake has affected property values in some areas, it believes the value of the Kaputone land has at least been maintained at the level implied in the Receivers' Information Memorandum:

- As indicated in CWH's post conference response there remains a demand for buildings of the size of Kaputone in the industrial fringe of Christchurch and there are a number of displaced operators in the transport, logistics, engineering and construction industries, many of which would consider Kaputone to be a potential option.
- Furthermore, since that submission was filed, CWH has received interest in the site from [].

To assist the Commission, at short notice CWH has arranged for Bayleys to provide an up to date valuation commentary on the Kaputone land. CWH acknowledges that Direct Capital is a shareholder in Bayleys, but the view expressed is that of Bayleys.

Bayleys have considered the property on a sale and leaseback basis offering normal lease conditions and a term of 9 years and assuming a net rental range would be between \$60 and \$65 per m². They also considered the value on the basis of a 15 year triple net lease and as vacant

possession. This is appropriate as CWH believes that it would be able to find a suitable tenant prior to any sale. Bayleys conclude the land value would range from a low of \$5.4 million to a high of \$8.5 million.

This is reasonably consistent with the value implied by the Receivers' Information Memorandum.

Bayleys have also provided a vacant possession value which reflects the unlikely event that either CWH or a potential investor would have difficulty finding a new tenant (the weight of evidence does not support that proposition). Even in this unlikely scenario, they consider the value to be in the order of \$5.0 million to \$5.4 million.

Bayleys' assumptions on rentals, and hence its assessment of value is, if anything, conservative particularly given the interest being shown in the property.

With regard to rental, **enclosed** is an analysis of current (i.e., May 2011) industrial rentals in Christchurch provided by NAI Harcourts. Of the 13 larger warehouses with rentals reported, 1 has a value below \$50 per m², 3 fall within the \$50 to \$55 per m² range, 2 fall within the \$60 to \$70 per m² range, and the remainder exceed \$70 per m² with the highest being \$93.53 per m². Bayleys' \$60 to \$65 per m² rental is slightly below the median level.

Bayleys' assessment is supported by data on recent sales of similar types of property in Christchurch as shown in the table below (as provided by Colliers).

Date of sale	Address	Council valuation	Building size	Sale price
December 2010	Hickory Place	\$5.8 million	0 (Land only)	\$5.3 million
September 2010	32 & 39 Montreal St	\$9.1 million	16,990 m ²	\$5.5 million
February 2010	15 Sir Wattie Drive	\$10 million	7,000 m ²	\$11.6 million
2009	306 Port Hills Rd	\$8.7 million	7,860 m ²	\$9.6 million
	16 Branson St	\$12 million	12,360 m ²	\$15.5 million
2008	45 Lunns Rd	\$3.9 million	3,720 m ²	\$3.65 million
	Feltex Riccarton	\$6.6 million		\$15.5 million

Yours sincerely

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