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## **Input methodologies review**

### **Fast track review of input methodologies for the application of airport land valuation methodology**

#### **Draft decision**

**Date of publication:** 10 November 2015

### Associated documents

Publication date	Reference	Title
3 July 2015	n/a	<a href="#">Input methodologies review – process paper update on fast track amendments</a>
3 July 2015	n/a	<a href="#">Amended notice of intention – Input methodologies review</a>
16 June 2015	ISBN:978-1-869454-55-5	<a href="#">Input methodologies review – invitation to contribute to problem definition</a>
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22 December 2010	ISBN: 978-1-869451-30-1	<a href="#">Input Methodologies (Airport Services) Reasons Paper</a>

Regulation Branch, Commerce Commission  
Wellington, NEW ZEALAND

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# 1. Introduction

## Purpose of this paper

- 1.1 This paper invites your views on our proposed amendments to the input methodologies (IMs) applicable to airports.<sup>1</sup> These amendments are being made under the IM review fast track process for considering amendments to the application of the airport services land valuation methodology (Airports fast track).

## Review of input methodologies

- 1.2 We are reviewing the input methodologies we determined in accordance with s 52Y(1) of the Commerce Act 1986 (the Act).<sup>2</sup> Section 52Y(1) requires us to review each IM no later than seven years after the date of publication.
- 1.3 In our problem definition paper, we stated that any decision-making framework we develop for the IM review is likely to be guided by a focus on changing only those aspects of the current IMs that would:<sup>3</sup>
- 1.3.1 Promote the Part 4 purpose in s 52A of the Act more effectively;
  - 1.3.2 Promote the IM purpose in s 52R of the Act more effectively, without detrimentally affecting the promotion of the s 52A purpose; or
  - 1.3.3 Significantly reduce compliance costs, other regulatory costs or complexity, without detrimentally affecting the promotion of the s 52A purpose.
- 1.4 We have applied this approach in the analysis contained in this paper.
- 1.5 Section 52V(2) of the Act requires us to publish the draft IMs that we propose to implement and give interested persons a reasonable opportunity to give their views on those draft methodologies.
- 1.6 The proposed amendments to the IMs are set out in Attachment A.<sup>4</sup>

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<sup>1</sup> References to airports in this paper are to those airports regulated under Part 4 of the Commerce Act 1986, being Auckland International Airport Limited (AIAL), Christchurch International Airport Limited (CIAL), and Wellington International Airport Limited (WIAL).

<sup>2</sup> Commerce Commission “Notice of Intention – Input Methodologies Review” (10 June 2015).

<sup>3</sup> Commerce Commission “Input methodologies review: Invitation to contribute to problem definition” (16 June 2015).

<sup>4</sup> The amendments we have proposed are based on recommendations made by Ernst & Young, who we have engaged as expert advisors.

- 1.7 In proposing amendments we have set out the methodologies in sufficient detail so that an affected supplier is reasonably able to estimate the material effects of the methodology on the supplier, in accordance with s 52T(2)(a) of the Act.

### **Airports fast track**

- 1.8 As a part of our review of IMs, we gave notice of our intention to fast track some IM amendments under section 52Y(1) of the Act.<sup>5</sup>
- 1.9 As part of this fast track process we are considering amendments to the IMs relating to the application of the market value alternative use (MVAU) valuation methodology for airport land. The relevant methodologies are set out in the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010.<sup>6</sup>
- 1.10 Consideration of the appropriateness of using an MVAU methodology for land valuation is not within the scope of the Airports fast track review process, though it is open to be considered as part of the main IM review following completion of the Airports fast track process.<sup>7</sup>
- 1.11 Further details of our reasons for undertaking the Airports fast track, and how the Airports fast track amendments fit within the overall IM review, are contained in our Process Update Paper of 3 July 2015.

### **Objectives of the Airports fast track**

- 1.12 In our process update paper of 3 July 2015, we stated that in the Airports fast track we would be focusing on:<sup>8</sup>
- 1.12.1 Narrowing the potential range of airport land values that can be derived under the requirements, including removing compliance ambiguities;
  - 1.12.2 Updating the airports land valuation requirements so they align to the current valuation standards and valuation industry practices applying in New Zealand; and
  - 1.12.3 Considering when land valuation methodology amendments will apply.

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<sup>5</sup> Commerce Commission “Notice of Intention – Input Methodologies Review” (10 June 2015).

<sup>6</sup> A consolidated version (which includes amendments made to the original input methodologies) is available on the Commerce Commission website. <http://comcom.govt.nz/>.

<sup>7</sup> Commerce Commission “Input methodologies review process paper - update on fast track amendments” (3 July 2015), para. 25.

<sup>8</sup> Commerce Commission “Input methodologies review process paper - update on fast track amendments” (3 July 2015), para. 23.

- 1.13 Subsequently, we decided that a decision on when the land valuation methodology amendments must be applied should be considered through the ID determination amendment process. The ID determination amendment process is discussed in Chapter 5.

### Process

- 1.14 On 3 July 2015 we issued an updated notice of intention on our proposal to fast track the consideration of potential amendments to airport services IMs relating to land valuation.<sup>9</sup> Our process paper issued on the same day provided an explanation of the intended timing and process for considering the potential amendments.
- 1.15 We also engaged Ernst & Young (EY) to make recommendations on potential amendments to the land valuation methodology, and to assist us in the Airports fast track.
- 1.16 On 2 October 2015 we held a workshop with stakeholders, facilitated by EY, to better understand stakeholders' views on the factors that drive differences in valuation outcomes under the MVAU, and to identify possible changes to the airport land valuation methodology and land valuation process.
- 1.17 We are now seeking submissions on draft input methodology amendments.
- 1.18 We intend to make any IM amendments by late February 2016 so that they:
- 1.18.1 Apply prior to the commencement of the 2017 price setting consultations by airports; and
  - 1.18.2 Can be completed and re-integrated back into the overall IM review process ahead of our draft decisions on the overall IM review due in mid-June 2016.
- 1.19 Once re-integrated, the IMs that are subject to fast track amendment will then be considered in the overall IM review. This will enable us to consider the IMs in light of the final Airports fast track amendments, rather than considering the Airports fast track IM amendments that are still subject to potential changes.
- 1.20 Following the determination of any Airports fast track IM amendments, we expect to commence a separate process under s 52Q of the Act to consider changes to the ID determination:
- 1.20.1 That may be necessary or appropriate in order to give effect to any changes to IM determination; or

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<sup>9</sup> Commerce Commission "Amended notice of intention" (3 July 2015).

1.20.2 Where, as part of this process, we have identified issues we consider it appropriate to address in the ID determination rather than amend in the IM determination.

1.21 While we propose to undertake that ID amendment process separately, we recognise that some discussions on how to address issues identified as part of this consultation process will lead to discussions about how the ID determination could be amended to address the issue. Where this occurs, we welcome your views as part of this consultation and note the formal consultation on ID determination matters will occur as part of a s 52Q ID amendment process.

1.22 We welcome your views on the amendments proposed in this paper.

1.22.1 Submissions are due by **5pm, Tuesday 8 December 2015**.

1.22.2 Cross-submissions are due by **12pm, Friday 18 December 2015**.

1.23 The following table outlines the process and the indicative timeframes for the Airports fast track process.

	<b>Process</b>	<b>Indicative time frame</b>
1.	<b>Publication of material for workshop</b>	15 September 2015
2.	<b>Workshop to discuss airport fast tracked matters, including framework for applying the MVAU valuation approach</b>	2 October 2015
3.	<b>Draft decision and draft input methodology amendments</b>	6 November 2015
4.	<b>Submissions on our draft decision and draft input methodology amendments</b>	8 December 2015
5.	<b>Cross-submissions on our draft decision and draft input methodology amendments</b>	18 December 2015
6.	<b>Final decision and input methodology amendments</b>	Late February 2016

#### **Material released alongside this paper**

1.24 This paper introduces the proposed IM amendments and describes the way economic concepts apply to the treatment of re-zoning costs.

1.25 This paper is supported by the following material:

1.25.1 Attachment A: Proposed input methodology amendments;

1.25.2 Mark-up of proposed input methodology amendments; and

- 1.25.3 Ernst & Young report Draft Airport Land Valuation Methodology – Supporting paper for Proposed Amendments to Schedule A (EY report).
- 1.26 Attachment A outlines the draft IM amendments we propose to make under s 52Y of the Act. The accompanying mark-up released along-side this paper shows the proposed changes to Schedule A.<sup>10</sup> The EY report sets out the reasons for their recommendations regarding the proposed IM amendments.

**Proposed decisions not to make other input methodology amendments**

- 1.27 In addition to the draft input methodology amendments set out in Schedule A, we have considered and decided not to propose IM amendments for:
- 1.27.1 Specifying the treatment of future maintenance costs or other potential liabilities associated with assets transferred to local authorities under HBAU plans;
  - 1.27.2 Specifying a standard valuation modelling approach or a standard valuation reporting structure or content; and
  - 1.27.3 Setting a valuation “variation threshold” to assess whether valuations are appropriate.
- 1.28 We have accepted and concur with the reasons for not making these amendments as set out in the EY report released alongside this paper.
- 1.29 We welcome submissions on our proposal not to make the above input methodology amendments to Schedule A.

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<sup>10</sup> The accompanying mark-up shows the proposed amendments Schedule A but not the proposed amendments to the IM determination definitions. The definition amendments are outlined in Attachment A.



## 2. Treatment of re-zoning costs

### Purpose of this chapter

- 2.1 This chapter outlines our proposed amendments to Schedule A to clarify how costs associated with re-zoning land are treated in the MVAU land valuations.

### Summary of proposed amendments

- 2.2 We propose amending Schedule A of the airports IMs to:
- 2.2.1 Clarify that costs associated with re-zoning land to its alternative use are to be accounted for in the estimated value of the land in its alternative use but the cost of re-zoning away from airport zoning is not required to be accounted for; and
  - 2.2.2 Specify the zoning starting assumptions valuers can use for the MVAU valuation.

### Overview of issue

- 2.3 The most significant ambiguity driving differences in MVAU land valuations is the treatment and determination of cost allowances for re-zoning land required for the highest and best alternative use (“HBAU”), including the time necessary to obtain the required planning changes.
- 2.4 The different starting assumptions used by valuers have led to divergent estimates of the re-zoning costs accounted for in the MVAU valuation. For example, BARNZ’s valuer has identified valuation differences of \$41 million compared to Wellington Airport’s valuer, of which re-zoning cost differences were the primary contributor (approximately \$30 million).<sup>11</sup>
- 2.5 The principal issue is what re-zoning costs should be deducted from the gross realisation or estimated value of the land in its alternative use when determining the MVAU valuation, with the primary issue being the valuation starting zoning assumption. The IMs do not currently specify any zoning starting assumptions.<sup>12</sup>
- 2.6 This chapter explains the economic concept of opportunity cost and the treatment of remediation costs in the context of the land valuation methodology applicable to

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<sup>11</sup> BARNZ “Feedback on Commerce Commission analysis of Wellington Airport’s third price setting event” (8 May 2015), pg. 4.

<sup>12</sup> Commerce Commission “Summary and analysis of Wellington Airport’s third price setting event”, para. A16.

airports. It then outlines how these apply to the treatment of re-zoning costs in MVAU land valuations.

- 2.7 The chapter then discusses our reasons for proposing that the zoning starting assumption for MVAU valuation should be the zoning prior to it being zoned an airport, the current permissible use, or a use consistent with the surrounding area.
- 2.8 EY made specific recommendations on how to implement the proposed amendments, which are set out in the EY report released alongside this paper. Draft amendments, reflecting the recommendations made by EY, are set out in Attachment A.

### **Opportunity cost concept**

- 2.9 The IM Reasons Paper supporting the original airport IMs outlines our intention for airport land to be valued at opportunity cost. We noted that:<sup>13</sup>

The correct incentives to invest in land in future will be provided if Airports expect to be able to earn a return on any investment in land before profits appear excessive that is sufficient to compensate them for the costs of acquiring and holding onto that land. The cost of continuing to hold onto land acquired in the past is measured by the opportunity cost that the Airport incurs today by using the land to supply specified airport services (i.e. instead of using it to supply other services). Providing a signal to Airports that they will be consistently able to earn revenues that compensate them for the opportunity cost of holding land without profits appearing excessive is therefore the appropriate approach when valuing land under Part 4.

- 2.10 Opportunity cost is the benefit that could be gained from an alternative use of the same resource. Our intention to account for development costs in the MVAU valuation was set out in clause A2(1) of Schedule A.

### **Remediation Costs**

- 2.11 When setting the IMs we also specified that remediation costs should not be accounted for when determining the MVAU valuation.<sup>14</sup> Our reasons for not accounting for remediation costs were that:

2.11.1 It does not result in write-downs of the RAB value of land when Airports make investments that would be costly to reverse which would not be consistent with Airports having appropriate incentives to invest; and

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<sup>13</sup> Commerce Commission “Input Methodologies (Airport Services) Reasons Paper” (22 December 2010), para. 4.3.57.

<sup>14</sup> In this context, remediation costs are the costs of converting land from use as an airport to its highest and best alternative use, such as by removing runways. The Commission’s reasons for excluding remediation costs from MVAU valuations is set out in Commerce Commission “Input Methodologies (Airport Services) Reasons Paper” (22 December 2010), para. 4.3.69 – 4.3.73.

- 2.11.2 It is not necessary to engage in the potentially costly and uncertain exercise of estimating the cost of remediating land because the NPV of disclosed cash flows over the investment of the asset would be the same whether included in MVAU valuation or not.<sup>15</sup>

### **Treatment of zoning costs in the MVAU valuation**

- 2.12 Although it is not specified in Schedule A or in the IM reasons paper how re-zoning costs should be accounted for in the MVAU valuation, it is consistent with the:
- 2.12.1 Opportunity cost principle that a cost allowance for re-zoning land to the HBAU should be accounted for; and
- 2.12.2 Treatment of remediation costs that a cost allowance for re-zoning land away from airport use does not need to be accounted for.
- 2.13 We therefore propose amending the IMs to clarify that costs associated with re-zoning land to its alternative use are to be accounted for in the estimated value of the land in its alternative use but the cost of re-zoning away from airport zoning is not required to be accounted for.. To assist valuers in applying this policy decision, we propose amending Schedule A to specify the valuation zoning starting assumptions that can be used when accounting for re-zoning costs.
- 2.14 NZAA considers that the time and costs associated with removing zoning specific to airport use should be excluded from the MVAU valuation. The starting point should be the zoning most likely to apply if the airport did not exist. They also consider that it could be clarified that, if the zoning required for the HBAU differed from the zoning most likely to be in place if the airport did not exist, then the cost of rezoning from notionally vacant status to the that required for the HBAU should be included. .<sup>16</sup>
- 2.15 BARNZ agrees that opportunity cost requires rezoning costs to be taken into account and that the value must reflect the maximum value in that best alternative use after any re-zoning costs. However they appear to disagree with our proposed clarification that re-zoning land away from airport use should not be accounted for in the MVAU valuation, when they argue that the most economically efficient approach would be to write-down the RAB value of land for remediation costs.<sup>17</sup>

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<sup>15</sup> Commerce Commission “Input Methodologies (Airport Services) Reasons Paper” (22 December 2010), para. 4.3.57.

<sup>16</sup> NZ Airports Association “IM Review: MVAU Schedule A land valuations” (14 October 2015), para. 21.

<sup>17</sup> BARNZ “Treatment of re-zoning costs in airport Schedule A land revaluations” (14 October 2015), page 3.

### Valuation zoning starting assumption

- 2.16 A zoning valuation starting assumption is required so the appropriate costs of changing land zoning to the HBAU are accounted for. Specifying a valuation starting assumption for land zoning will have an impact on the valuer's assessment of the time required to obtain the re-zoning, which will be reflected in the re-zoning costs.
- 2.17 We propose that Schedule A be amended to require that the zoning valuation starting assumption be one of the following:
- 2.17.1 The zoning status prior to it being zoned an airport;
  - 2.17.2 The zoning consistent with the surrounding area; or
  - 2.17.3 The current zoning.
- 2.18 We have included three options for the valuation zoning starting assumption because it is not always clear what the zoning would be if it was not zoned for airport use. Outlined below are our reasons for including the three options for the valuation zoning starting assumption.
- 2.19 Where land has recently been acquired, it may be appropriate for the valuer to assume that the land's zoning is the zoning that was in place prior to it being zoned as an airport, as its historic zoning represents its status prior to the land having any airport specialisation being applied to it. Having this option available for when land has recently been acquired is important to limit the risk that land could be written down when airports make investments associated with re-zoning recently acquired land.<sup>18</sup>
- 2.20 The land's zoning status prior to it being zoned an airport will be less relevant to investments in land that have occurred a long time ago. Accordingly, valuers may assume the land's zoning is consistent with that of the surrounding area. This is a pragmatic solution to assuming what the land would be had it not been zoned as an airport.
- 2.21 Zoning consistent with the current zoning is included as an option for the valuation starting assumption because the land may already permit the HBAU, being a use other than as an airport. It would not be consistent with the opportunity cost assumption if the valuation was required to assume there was a cost to convert it to its current zoning.
- 2.22 Professional judgment is required to determine the likely zoning of the land for the purposes of undertaking the MVAU valuation. We consider that the expert valuer is best placed to determine whether the zoning valuation starting assumption should

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<sup>18</sup> This is consistent with the principle that Airports should have appropriate incentives to invest, as outlined in para. 2.11.1.

be consistent with the surrounding area, the status of the land prior to being zoned as an airport, or its current use.

- 2.23 We do not consider it necessary to prescribe when each of the valuation starting assumptions should be used as we have not identified any likely situations where a valuer would inappropriately use one of the available starting assumptions.
- 2.24 We seek parties' views on the appropriate degree of prescription of the zoning valuation starting assumption.

### **3. Latest valuation standards**

#### **Purpose of this chapter**

- 3.1 This chapter outlines the proposed amendments to Schedule A of the airports IM determination so that it reflects the latest valuation standards and to address potential ambiguities in the explanatory notes regarding application of those standards.

#### **Summary of proposed amendments**

- 3.2 We propose amending Schedule A of the airports IMs to:
- 3.2.1 Refer to the latest valuation standards; and
  - 3.2.2 Remove any inconsistencies in, and repetition between, and within, the Schedule A requirements, explanatory notes, and referenced statements.
- 3.3 EY's advice and recommendations regarding the latest valuation standards and the explanatory notes are set out in the EY paper, and proposed input methodology amendments are set out in Attachment A.

#### **Incorporating updated valuation standards by reference**

- 3.4 If adopted, the latest valuation standards must be applied by the valuer preparing any MVAU valuations in accordance with the IMs. Any standards that apply will be incorporated by reference in accordance with Schedule 5 of the Act.
- 3.5 We may adopt any amendments to, or replacement of, those standards that may occur in the future, in accordance with clause 5 of Schedule 5 of the Act.

## 4. Information supporting valuations

### Purpose of this chapter

- 4.1 This chapter outlines the proposed amendments to Schedule A of the airports IM determination and our intention to consider amendments to the ID determination to enhance transparency in relation to the valuation and the valuer's report.

### Summary of proposed IM amendments

- 4.2 We propose to amend the land valuation IMs to provide additional direction on the information (including economic analysis relating to the HBAU, and how the valuer determined the starting point for zoning and the likelihood, timing, and costs of re-zoning to the HBAU) required to support the valuation assumptions.
- 4.3 The proposed amendments to the IMs, and reasons for the amendments, are set out in the accompanying recommendations prepared by EY.

### ID amendments to be considered at a later date

- 4.4 We intend to separately consider whether to amend the ID determination to require:
- 4.4.1 An explanation and reconciliation of changes in subsequent valuations; and
  - 4.4.2 An explanation and reconciliation of MVAU land valuations and the land value included in the regulatory asset base (RAB).
- 4.5 EY have considered IM amendments to address these issues, but have recommended that amendments to the ID determination would be more appropriate. We seek your views regarding our draft decision not to undertake IM amendments to address these matters.

## 5. Consideration of information disclosure amendments

### Purpose of this chapter

- 5.1 This chapter summarises our proposed treatment of recommended ID determinations proposed in the EY report and discussed at the workshop.

### Consideration of ID matters

- 5.2 We expect to commence a separate process under s 52Q of the Act to consider changes to the ID determination:
- 5.2.1 That may be necessary or appropriate in order to give effect to any amendments to the IM determination; or
  - 5.2.2 Where, as part of this process, we have identified issues we consider it appropriate to address in the ID determination rather than amend in the IM determination.
- 5.3 Our intention would be for any ID determination amendments to be made by late 2016, so that airports may apply the amendments for the next price setting event.
- 5.4 We expect that the subsequent ID determination amendment process will:
- 5.4.1 Give effect to any changes made to the IM determination as a result of this IM review process;
  - 5.4.2 Consider whether to require an explanation and reconciliation of changes in subsequent valuations;
  - 5.4.3 Consider whether to require an explanation and reconciliation of MVAU land valuations and the land value included in the RAB; and
  - 5.4.4 Consider how changes in land valuation should be reflected in the assessment of airports profitability.
- 5.5 We recognise that some discussions on how to address issues identified as part of this consultation process will lead to discussions about how the ID determination could be amended to address the issue. Where this occurs, we welcome your views as part of this consultation and note the formal consultation on ID determination matters will occur as part of a s 52Q ID amendment process.



## 6. How you can provide your views

### Purpose of this chapter

- 6.1 This chapter sets out how you can provide your views on our proposed amendments to Schedule A of the airports IM determination.

### Timeframe for submissions

- 6.2 We welcome your views on the amendments proposed in this paper.
- 6.2.1 Submissions are due by 5pm, Tuesday 8 December 2015.
- 6.2.2 Cross-submissions are due by 12pm, Friday 18 December 2015.
- 6.3 We do not intend to take into account any material that is submitted outside this timeframe. Any party that is concerned about the time to engage with the material should contact us with a request for an extension outlining their specific concerns.

### Address for submissions

- 6.4 Submissions should be addressed to:
- Kimberley Foo (Airports fast track process, Regulation Branch)  
c/o [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

### Format for submissions

- 6.5 We prefer submissions in both MS Word and PDF file formats.
- 6.6 Please include "Submission on Airports fast track IM amendments" in the subject line of your email.

### Requests for confidentiality

- 6.7 We encourage full disclosure of submissions so that all information can be tested in an open and transparent manner, but we offer the following guidance.
- 6.7.1 If it is necessary to include confidential material in a submission, both confidential and public versions of the submission should be provided.
- 6.7.2 The responsibility for ensuring that confidential information is not included in a public version of a submission rests entirely with the party making the submission.
- 6.8 We request that you provide multiple versions of your submission if it contains confidential information or if you wish for the published electronic copies to be 'locked'. This is because we intend to publish all submissions and cross-submissions on our website. Where relevant, please provide both an 'unlocked' electronic copy of your submission, and a clearly labelled 'public version'.

## Attachment A – Proposed input methodology amendments

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 102 – Implementation

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	Professional valuation framework
A3	Valuation requirements
A4	Special assumptions
A5	MVAU valuation steps

## A2 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; 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.

## A3 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.

#### **A4** 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 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) Relevant construction costs, holding costs, and the developer's or investor's profit and risk must be included in the **MVAU** valuation.
- (6) 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) 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 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.

#### **A5** 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) determine the **special assumption** for **land** zoning;
  - (d) consider and determine the **highest and best alternative use**;
  - (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, 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 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.