Level 27, 151 Queen Street
PO Box 1631, Auckland 1140
New Zealand
www.colliers.co.nz

MAIN +64 9 358 1888
FAX +64 9 358 1999

15390.2/ND

7 November 2012

The Manager - Finance
Auckland International Airport Ltd
PO Box 73020
Auckland Airport
AUCKLAND 2150

Attn: Sam Hansen

Dear Sam

AUCKLAND AIRPORT LAND VALUATION REVIEW
56G CROSS SUBMISSION - LAND VALUE

I acknowledge receipt of material from BARNZ and in particular the review of the valuation from Property Advisory Limited (PAL), who quote extensively from Market Economics (ME) and Zomac Planning Solutions (ZPS).

In response to this document and as a preliminary matter, I believe it appropriate to state the credentials of the valuers involved with this exercise.

1.0 <u>EXPERIENCE</u>

Mr Andrew Stringer has had a very wide ranging and substantial grounding in all property matters subsequent to his registration as a valuer in 1997.

Accordingly he has had 15 years as a Registered Valuer, with the first period spent with CB Richard Ellis as a Registered Valuer in Auckland on a wide range of property types.

He then took up the position of Development Manager for Kiwi Income Property Trust responsible for the planning, consenting and construction of Sylvia Park Shopping Centre, one of the largest such undertakings in New Zealand. Upon completion of Sylvia Park, Andrew Stringer became General Manager of Landco, a property company responsible for the Long Bay and Stonefields developments among others. Stonefields is the largest residential subdivision undertaken in a comprehensive manner in the Auckland landscape over many years. The Long Bay development would also be of substantial proportions and rendered that much more difficult by the complicated planning process necessary to get the development underway.

Accordingly, not only does Andrew Stringer have significant experience as a Registered Valuer, but he has also acted for many years prior to joining Colliers in a development capacity. Most of the foregoing represents Auckland based market experience, such that when he joined Colliers he was appointed as National Director, responsible for 50 valuers nationwide and also headed up the Auckland team. Accordingly he has seen both sides of the ledger and is ideally placed to undertake a valuation such as that required at AIAL.

The writer, Nigel Dean, has been a Registered Valuer for 40 years, with all but one of those years in the Auckland area. The writer commenced work as a valuer in 1965 and spent the first 20 years with the Government Valuation Department before entering into private practice in 1985. Accordingly he has 27 years in public practice as a valuer specialising over many years in large land holdings, especially those that have a wide and varied history from a development perspective.

By way of example, the writer was the principal valuer to New Zealand Railways through its entire upper North Island land holding including Newmarket Station, the Otahuhu Railway workshops and Auckland Station, having valued these for financial reporting purposes and also valuing them for disposal.

Additionally I have had extensive experience with land development having undertaken a full feasibility study for Rhubarb Lane, Gulf Harbour, Compass Point at Half Moon Bay and extensive land development work at Dannemora, Long Bay, Stonefields and Riverhead.

In addition to those undertakings the writer is the principal valuer to Westfield (New Zealand) Limited and Brookfield New Zealand Limited through their diverse portfolios.

Accordingly the Colliers team responsible for the valuation of AIAL has a width and depth of experience that is difficult to find within the New Zealand valuation environment and have particular relevant experience in relation to valuation in the Auckland area.

2.0 CONSENTABILITY

Turning now to the concerns that have been expressed by the representatives acting on behalf of BARNZ which questioned the “aggressive” approach to consentability of the Common Ground master plan in terms of commercial and residential mix, it is appropriate to firstly address the prospects of obtaining consent for the Common Ground Master Plan.

In the first instance I observe that if the airport were not to be located in its current location, the land that it currently occupies would still be contained within the urban boundary of Auckland and would be deemed to have an appropriate zoning which must be predominantly residential but would also have other non-residential uses catered for.

In other words a realistic view of the land must be taken if it was not an airport; such view being not one that would leave the land use in a planning vacuum.

It is important to recognise that even if the airport were not located here, the site would not be a greenfields site because of all of the existing infrastructure in place.

There are two arterial routes connecting the property; one for Manukau and one for Mangere (both connecting to the south-western motorway) and there is a full suite of urban service right up to the boundary at the end of these two roads, with these servicing the already existing commercial and retail Infrastructure.

Hand in hand with these highly unusual characteristics, elements such as the Regional Policy Statement of the former Auckland Regional Council would undoubtedly require that the development of land such as this would have to be undertaken on an intensive basis, much as is already occurring at Hobsonville and other locations.

Accordingly, the land stands to be evaluated in terms of the planning regime which would dictate a largely residential environment of an intense variety, being undertaken within the existing urban framework with elements of commercial and retail development already in existence together with significant roading and transport links which connect this site to the balance of Auckland.

It is suggested that there would be significant delays despite the land being already effectively zoned, or that the scale of the development would generate opposition (paragraph 78 PAL Report).

With respect, we do not agree. With zoning already deemed to be in place, and the imperative to satisfy the requirements for intense development under the Regional Policy Statement, it is most difficult to contemplate appropriate consents for complying activities would not follow in realistic timeframes.

Whilst the property has been appraised overall as a single holding, there are clearly two access points and the prospect of several developments having different offerings progressing at the same time is not only real, but realistically expected.

Given the circumstances, we disagree that there are issues with respect to the consentability.

3.0 CONSENT TIMING

With respect to the issues of consent, expressed in the PAL Report at paragraph 59, we would be surprised indeed if it could take two years to obtain the planning approvals for land which must be deemed to be already zoned and within the urban boundary. To then suggest that detailed design and construction would take a further year before commencement, ignores the realities of the market place. The presumption from consent through detailed design and construction would take a further year, appears based on the notion that prospective developers would do nothing during the consenting period and only after consent was granted, proceed to do detailed design work and commence construction. In practice, timing is everything with urban development and it is not unknown where complying activities are being applied for, for the work to be broken down into pieces and for separate consent to be granted for bulk earthworks which can start well ahead of the final consent document. It is emphasised that it is our view that developments of this land would in all probability be based on a consented activity status under the zoning that would realistically be in place were there not to be an airport. In our view, to suggest as PAL do that it would take three years before any work could commence is unrealistic.

4.0 COMMERCIAL CONTENT

With respect to the issues raised by both PAL and ME, regarding the quantity of commercial land, we rather suspect that there is a misapprehension over the term commercial land.

As may be gathered, we have two categories of land expressed in our report; the first of these being residential and the second being commercial. We would acknowledge that having used the term “commercial” and with the benefit of hindsight, we should perhaps have made reference to non-residential rather than commercial. However this terminology had been aligned with the MVAU plan developed by Common Ground.

It is also relevant to consider those elements of use that do not fall squarely within the residential environment and accordingly we would note such elements as schools, gymnasia, retirement villages, hospitals, technical institutes, universities, sports stadia, as well as the potential commercial elements such as offices, retail, showroom and wholesale premises. Additionally of course, there may well be a demand in a township with a population of 40,650 or more for service stations, picture theatres and the like.

Clearly some of these elements are already catered for in the existing commercial fabric that is excluded from the valuation element that forms core infrastructure that could be recycled most readily into the central elements of the retail requirements for a township.

We note that the material produced on behalf of BARNZ suggests that there are 259,840 square metres of gross floor area within the precincts in the Common Ground assessment. Rather, Common Ground refers to 37.1 hectares of “non-residential” land, plus the non-residential land within the existing commercial area of 37.0ha.

From a valuation perspective, we have referred to an area of commercial land of 259,841 square metres net on a land area basis, not a gross floor area basis (ie 25.9841ha) within the precincts, plus of course the non-residential land within the existing commercial area of 38.4ha (adjusted for refinement of the land use plan at 30 June 2012).

We have departed from the Common Ground areas within the precincts by “netting out” allowances for roads, accessways, etc from 37.1ha to produce 25.9841ha to enable us to compare with market material for non-residential land, sales of which are usually on a net site basis.

On further examination we have endeavoured to analyse likely non-residential land uses that might fit within the 25.9841ha.

By way of an illustration, the total population of this precinct would be in the region of 40,650 people in 16,260 houses.

Numerous of the 40,650 people would be children given the likelihood that much of the housing in this area would tend to be more affordable housing rather than high priced housing given considerations of location, etc.

If one-third of the population was children that suggests something in the region of 13,550 children. With newer housing areas, there is likely to be a demand for primary schools and secondary schools in order to cater for such a population.

Ministry of Education preferences suggest in new developing areas, that primary schools will have a minimum area of 3.0 to 4.0ha whereas secondary schools whose population could be double that of a primary school would be likely to be significantly larger, being anywhere from 6.0 to 8.0ha. We have drawn these figures from our experience of valuing school site requirements for the Ministry for acquisition and disposal.

There can be no precision as to the number of schools likely, but on balance it seems likely that with a development occurring over time there would be not less than eight to ten primary schools for a population of 40,650 and at least two secondary schools, or more.

On the basis of those guidelines, eight primary schools would have a minimum area requirement of 24.0ha while two secondary schools would probably consume 15.0ha. That makes a total of 39ha of land needed for schools alone. That area contrasts with the 25.9841 ha of land under the heading of commercial with in the Colliers valuation report, plus of course the existing precinct.

If one was also to contemplate any of the modest suburbs in the Auckland isthmus area and in the southern suburbs, one would find a proliferation of motels, retirement villages, sports clubs, medical facilities in addition to the inevitable suburban office, retail, wholesale service, small tenancy type operations.

In the face of the information noted above, I venture to suggest that rather than there being too much supply of non-residential land, on the basis of the schools analysis alone there appears to be too little.

It is also necessary to address the notion that significant portions of the existing commercial fabric would cease to exist if the airport were no longer there. While it is true that some commercial elements may struggle and may relocate because of their absolute dependence upon the airport, it is undoubtedly true that in the wider locality outside the airport, there are substantial industrial and commercial elements that exist in their own right without being dependent upon the airport for their existence.

This location of the airport and the adjoining industrial and commercial precincts is very well located, with excellent motorway access which these days is a fundamental characteristic for the success of industrial localities. It is interesting to contrast the initial slow progress of Highbrook, being the extension to the East Tamaki industrial precinct prior to the construction of the motorway connection. The subject locality already has that motorway connection and indeed a link road that facilitates access to Manukau City or points north.

It is also necessary to reflect upon the well documented and severe shortage of business land in the Greater Auckland area, to which the 25.9ha of existing land on the airport with buildings would represent an excellent opportunity, rather than be seen as a catastrophe.

Accordingly, I am of the view that there is no significant attrition even in the existing industrial fabric which is not part of this valuation, let alone issues with too much non-residential land within the precincts contained within the Common Ground plan. Rather, an objective view of the probable mix of the population and the requirement for facilities tends to suggest that the amount of land allowed is, if anything, too little but in our view when taken overall, satisfactory.

One final element requires addressing in terms of the commercial land argument and the quantity of space involved. The Colliers valuation has adopted a rate overall of $300 per square metre for land which would cover all of the above mentioned use types ranging from service stations, shops and office, through to school sites. If one was to examine existing developed suburbs such as Mt Roskill, Pt Chevalier, Onehunga, Mt Wellington, Panmure, Glen Innes, Pakuranga, Mangere, Manurewa and Papatoetoe, the land costs for land in these locations would tend to suggest that mixed use land that could accommodate uses from petrol stations to schools would sit in a value range substantially above $300 per sqm but obviously the land value rate will vary with area.

By way of direct comparison, blocks of land from 1.0ha to 4.0ha situated in greenfields locations in Flat Bush show between $200 and $400 per sqm for intensive residential, while there is a recently recorded sale at Botany for a 3.5ha property with narrow access at $275 per sqm. It would appear clearly on this basis then, that the value rate is by no means aggressive and if anything represents a conservative expression of the true worth of this land.

5.0 <u>RESIDENTIAL DEMAND</u>

Turning now to the question of demand for the product of this development, we have not for the purpose of this response noted the population statistics, however, the latest projections for Auckland suggest that by 2031, the population is projected to be in the region of 2,000,000 people. Given that at 2011 the population was approximately 1,500,000, the growth suggests 500,000 people over a period of 20 years. In round figures that equates to growth of 25,000 per annum or if taking the suggested 40,000 odd people in this precinct, a demand equivalent to 62.5% of the land supplied on the subject precinct at the airport, every year for the next 20 years.

Equated to household units and at an approximate ratio of 2.5 persons per unit, there is a demand likely across the Auckland landscape of 200,000 dwellings over a 20 year period or 10,000 houses per year.

It is already clear that within the reductions in building from 2008/2009 that the city overall is some 15,000 houses below the number required going forward. In large measure, this is the reason why the residential property market across Auckland has tended over the last two years to exhibit strong growth and increasing sales volumes and reducing time to sell in a significant number of localities.

Overall then, it is reasonable to suggest not less than 215,000 new houses are required over the next 20 years. This is a requirement of 10,750 houses per year.

Relating this number to the likely output from the development plan for the airport planned suggests a total number of household units of 16,260 over a 17 year period. That is 954 houses per annum without allowing for the relatively slow start-up that would occur in Year 1 of the prospect development. It can be seen from the calculations that 954 houses per annum represents significantly less than 10% of the volume of new houses required to meet Auckland's projected population.

In our valuation report, reference was made to the statistics for the Botany area during the mid-1990s and early 2000s where this locality generated 40% to 50% of the total consents for the Manukau region and at its peak was representing new building consents between 600 and 800 per annum.

During that period, the supply of urban land for housing purposes was by no means as critical as it is today and growth at that stage was projected at a somewhat lower level. In our opinion the performance of Botany supports the notion of about 950 dwellings per year.

In our opinion the Stonefields development is not a particularly good example of housing absorption because the development in our view is a little challenged and is in any event not directly comparable for the location of the subject land.

In the first instance, the development has proceeded without any commercial facilities in the housing precinct which is certainly not the prospect in respect of the airport land.

Secondly, many of the houses produced in Stonefields are upper end houses above $700,000 in price and accordingly the market for houses in that price bracket tends to reduce whereas it is anticipated that given the land values adopted, prices for houses on the airport development would be substantially lower.

Access to the Stonefields development is currently a little tortuous with accessing onto already congested residential streets being a little challenging. However, the overriding reason that the material provided by ME and referenced at paragraph 76 of the PAL document (noting that the main body of the Stonefields development was available for building around 2008 and development expected to continue through to 2015) is inaccurate, is that the presumption in the quote that follows is inappropriate. ME thus make the following somewhat surprising comment; "Assuming that the developer is selling dwellings there as quickly as possible - this can serve as some guide as to how quickly large developments such as this (AIAL land) may sell".

Reference is then made to an average of 300 dwellings per year.

The assumption made is unfounded because the original development started on the basis of a long term contract in the early 2000s between the developer and Fletchers for the developer to develop and Fletchers to take lots on a strictly scheduled basis at the perceived demand from the early 2000s rather than the developer simply being able to sell the lots at will as demand dictated or changed in the market place over time.

Accordingly the Stonefields development is in fact the very worst example to use to gauge absorption on the AIAL land, because it was constrained by contract terms.

The experience at Dannemora, Botany is in our view a much better comparison. There were multiple sources of offerings and this undoubtedly generates competition and in view of the statistics produced in the Colliers report, suggests strongly that significant numbers of sales on an annual basis can be and were achieved.

We remain comfortable with the development timeframe and selldown rate adopted in the AIAL valuation.

6.0 <u>DISCOUNT RATE</u>

At paragraph 65 of the PAL report issue is taken with the 25% discount rate adopted for the MVAU valuation dated June 2011. PAL have stated that they consider that the discount rate should be between 25% and 30%.

Without wishing to be confrontational on the matter, it is our view that it is simply not possible to discuss the discount rate in isolation from all of the other elements of the valuation that inevitably arise.

By way of example, if the unit and land prices were aggressively undertaken with expectations at the upper end of the value ranges and with shorter sell down periods,, it may then be appropriate to adopt a higher discount rate. Conversely lower values and a longer sell down period might result in lower discount rates. Whilein a similar manner, elements of growth that are an inherent part of the discounted cashflow analysis also may reflect upon an appropriate discount rate. This all supports the statement that the discount rate cannot be reviewed in isolation.

In present circumstances at page 30 of the Colliers report, reference was made to Auckland regional growth rates for residential sections that demonstrated average rates of increase for the five years to May 2011, the ten years to May 2011 and the 15 years to May 2011.

Needless to say, all of these periods incorporate the period where the residential property market was influenced by the fallout from the global financial crisis. Growth rates demonstrated over this period range from 4.9% to 9.29%, with the average over the most affected element being the five years to May 2011 showing 4.9%. We have adopted 2.7% compound annual growth throughout the period of our cashflow which is on the balance of statistics a quite conservative view. Accordingly, suggestions that on the parameters adopted in the Colliers valuation that the discount rate should be higher are in our view roundly contradicted.

I note earlier in the PAL report at paragraph 64, reference is made to required rates of return, or internal rates of return, from between 10% to 40% which leads me to query from where the PAL report draws its evidence of discount rates. Discount rates as high as 40% have not to my knowledge been experienced in Auckland urban development.

While the range may be appropriate elsewhere, it is not appropriate in the Auckland market.

In a similar manner, to suggest as PAL do also in paragraph 64 that there are "depressed expectations surrounding future growth" are roundly contradicted by the statistics available in the market place and represent the sort of sweeping statements expected to be found in the media rather than derived from a knowledge of the market and a careful study of the parameters.

7.0 FINANCING CHARGES

Reference has also been made at paragraphs 68 to 70 in respect of financing charges.

While in a static valuation or hypothetical subdivision valuation, it is customary to allow holding costs, such action is not necessary within the context of a discounted cashflow valuation because it is inherent in the process that there is discounting in a negative manner where there are cashflow shortfalls and in a positive manner where there are cashflow surpluses. However, the valuation that this commentary relates to is of the Puhinui Precinct which is acknowledged as being a large development undertaking. Because the land price is incorporated into the valuation in the early stages and it takes some time for cashflows to return the development to positive, there is a shortfall in the early years which requires recognition. Accordingly in a conservative way we have deducted further interest charges that recognise the negative cashflow and in our view would prompt someone to pay less for the land. This is reflected in the valuation process and is a conservative view serving to reduce the level of value assessed.

There are also significant land elements allowed in the Common Ground plan for recreation purposes. While clearly coastal elements would end up being set aside to satisfy marginal strip requirements, the substantial elements allowed would in our view more than cover the reserve contribution local authority charges and accordingly the allowance in this respect is considered to be generous.

8.0 BARNZ VALUATION CONCLUSIONS

Finally, PAL have expressed their conclusion that the valuation is 10% to 15% overstated yet it would appear that they have been instructed not to undertake a formal valuation on an MVAU basis for the AIAL land. How it is then that in such a complex undertaking and such a complex model that PAL are able to say that their conclusion is that the value is overstated by 10% to 15%. That is in my view impossible. It would appear that they have adopted unquestioningly the opinions expressed by ME as to the commercial-residential mix and we note our earlier expressed view and the reasons for our view that if anything, the non-residential component of the Common Ground plan is, if anything, too little rather than too much.

Additionally criticism has been made of the selldown period, but I confirm that we are comfortable with the selldown period adopted. Colliers reject the comparison made to Stonefields which was affected by the nature of the contracts in place, and therefore is an inappropriate measure of market absorption for this valuation.

We remain comfortable with the planning and construction framework adopted.

Yours sincerely
COLLIERS INTERNATIONAL NEW ZEALAND LIMITED

S N DEAN **FNZIV, AREINZ, FPINZ**
Registered Valuer
Director | Valuation & Advisory Services