

Property Advisory Ltd – valuation advice

Mr Dougal Smith of Property Advisory Ltd (PAL) was engaged by BARNZ to undertake a peer review of the land valuation undertaken by Colliers for Auckland Airport applying the Commerce Commission's valuation guidelines set out in Schedule A of its Determination of Input Methodologies for Specified Airport Services. The advice from PAL is provided as **Attachment 7**.

Mr Smith is a Director of Property Advisory Ltd. He is a registered valuer with considerable expertise in valuation of residential and industrial block land, investment property and specialised assets. He holds a Bachelor of Commerce, Valuation and Property Management.

PAL advise that while the valuation steps and methodology adopted by Colliers when assessing the MVAU of the AIAL land as at 30 June 2011 appears to comply with the International Valuation Standards and the requirements of the Commerce Commission specified under Part 4 of the Commerce Act, the alternative use plan for the land promoted by Colliers does not as it is too aggressive in terms of:

- The consent-ability of the CG master plan in terms of the commercial and residential mix,
- The planning and construction timeframe,
- The level of perceived demand for commercial land, and
- The appropriate sell down period for identified residential land.

Mr Smith concludes that in his opinion, the:¹

... Colliers MVAU valuation is over stated and it is questionable in terms of Section A10 of Decision 709, as to whether or not the HBAU development is appropriately justifiable, legally permissible, and financially feasible.

Mr Smith goes on to state that:

From my experience as a valuer if the changes suggested by ME as to the appropriate commercial / residential development mix, sell down period, and planning and construction timeframes were adopted, we would expect the resultant MVAU valuation when compared to the Colliers \$533m valuation to decrease materially in the vicinity of 10% - 15%.

Overall conclusion by BARNZ on the reasonableness of the 2009 and 2011 MVAU land valuations

The planning, economic and valuation advice obtained by BARNZ from ZPS, ME and PAL all identify that the alternative land use plan developed by Common Ground, and adopted by Colliers as the basis for the 2009 and 2011 MVAU valuations, is too aggressive in terms of the amount of commercial land included within the plan and that the length of the development period adopted by Colliers is too short:

¹ Letter dated 26 October 2012 from PAL to Mr J Beckett, Executive Director BARNZ, page 19.

- ZPS concluded that the proposed commercial space is manifestly in excess of what is likely to be realistically sustainable and the alternative land use plan by Common Ground does not reflect the underlying philosophy of the input methodology determination.
- ME concluded that Common Ground had overstated the sustainable commercial space by around 372 000m² to 408 000 m² and that the 17 year sell-down period adopted by Colliers was the minimum timeframe which could be adopted and, in reality, it may be 20 to 25 years before the proposed new dwellings would be sold.
- PAL concluded that it is questionable whether the alternative land use development is appropriately justifiable, legally permissible and financially feasible, and, as a result, the Colliers MVAU valuation is materially overstated, in the vicinity of 10% to 15% of the \$533m adopted land value.

A 10% to 15% reduction in land value equates to a \$50m to \$80m over-statement of the land value.

As BARNZ submitted in its post-conference submissions in relation to Wellington Airport, BARNZ strongly considers that the Commission needs to engage its own independent valuation advisers, as the Commission did during the Airport Price Inquiry, to determine an appropriate land valuation.

Without independent verification of the appropriate MVAU value, the Commission will not be able to clearly assess the level of profitability of the Airport.

In addition, BARNZ reiterates the need for the Commission to review the valuation directions in Schedule A of its Determination and provide greater specificity and direction to planners in the development of the alternative land use plan, particularly around the need for economic analysis of the underlying market conditions regarding the supply of, and demand for, the land uses under consideration.