

6 December 2012

TelferYoung  
Canterbury

The Chief Financial Officer  
Wellington International Airport Limited  
PO Box 1475  
WELLINGTON 6140

Attention: Mr Martin Harrington

Dear Sir

**Re: Review of Land Valuation Methodology - Darroch Limited  
Land Valuations 2009 and 2011**

## 1.0 Introduction

Thank you for providing copies of the reports by Darroch Limited entitled "*Review of Land Valuation Methodology Wellington International Airport Limited*" in relation to the valuations as at 31 March 2009 and 31 March 2011.

You have requested we provide initial comments on matters raised in the review.

Prior to responding to the issues raised we consider it appropriate to discuss the professional experience of TelferYoung and the valuation process adopted in establishing the land valuations for 2009 and 2011.

## 2.0 TelferYoung

TelferYoung are a New Zealand wide valuation practice with offices extending from Whangarei in the north to Dunedin in the south. TelferYoung has 11 offices with in excess of 60 registered valuers, many of whom have been recognised for their professional standing being elevated to Fellows or Life Members of the Property Institute of New Zealand.

TelferYoung take pride in their independence from real estate sales, leasing or management. We are privately owned companies with no corporate or Government ownership.

TelferYoung have a number of members on Land Valuation Tribunals and past and present members of the Valuers Registration Board.

### TelferYoung (Canterbury) Limited

Level One, Beatson House, 245 Blenheim Road, PO Box 2532, Christchurch, New Zealand

Telephone: +64 3 343 1060 Facsimile: +64 3 343 1209

Email: [telferyoung@telferyoung.com](mailto:telferyoung@telferyoung.com) website: [www.telferyoung.com](http://www.telferyoung.com)

+ Chris Stanley + John Tappenden + Mark Beatson + Mark Dunbar + Victoria Murdoch





TelferYoung's professional expertise covers all sectors of the real estate spectrum including the valuation of residential, rural, commercial and industrial property. We have developed expertise over many years in the valuation of specialised assets including:

- + Port assets
- + Airports
- + Infrastructure
- + Education facilities
- + Health facilities
- + Public sector assets
- + Telecommunications

Major clients include:

- + Airways Corporation
- + District Health Boards throughout New Zealand
- + Local Authorities such as Auckland City Council, Nelson City Council, Dunedin City Council and Christchurch City Council
- + Solid Energy
- + Fonterra
- + Foodstuffs
- + Progressive Enterprises
- + Kordia
- + 2Degrees
- + Rural Property Trust

The author of the reports, Chris Stanley, has a Master of Property Studies (Distn), was registered in 1985, is a Fellow of the Property Institute of New Zealand, a Fellow of the New Zealand Institute of Valuers and an Associate of the Arbitrators & Mediators Institute of New Zealand.

Chris is a former president of the Property Institute of New Zealand, the current Chairman of the Property Institute of New Zealand Valuation and Property Standards Board, a member of the Australian Property Institute Valuation Standards Board, and a member of the International Valuation Standards Council Standards Board based in London.

Chris is a member of the Land Valuation Tribunal, a statutory appointment. In 2012 Chris was appointed by the Minister of Land Information as the Chairman of the Expert Valuation Panel for disputes over Red Zone property values. In July 2012 he was appointed Crown Valuer for the acquisition of properties as part of the Canterbury Earthquake Recovery.

Chris was appointed by the Office of Treaty Settlements as an Umpire in relation to the Ngai Tahu Treaty Claims. In 2001 Chris was appointed as an Expert Advisor to the Commerce Commission relative to the valuation of airport assets.

In addition to the TelferYoung National clients listed above Chris personally acts for major clients including:

- + Canterbury District Health Board
- + Dunedin International Airport Ltd
- + Christchurch International Airport Ltd
- + Land Information New Zealand
- + Ministry for Primary Industries
- + Z Energy
- + Christchurch City Council





### 3.0 Process to Prepare Valuations for Information and Disclosure and Consultation

TelferYoung was instructed by Wellington International Airport Ltd (WIAL) to prepare a valuation in accordance with *Schedule A of the Specified Airport Services Input Methodologies Determination 2010*. Schedule A details the Airport Land Valuation Methodology.

Following a full review of Schedule A TelferYoung worked with Boffa Miskell to develop a Masterplan for the potential development of Wellington Airport on a highest and best alternative use basis. The development of this plan considered a range of prospective scenarios.

In developing the plan consultation was undertaken including a number of direct contact meetings with BARNZ, the airlines and their respective professional advisors. The development plan was an iterative process with a number of changes made to the plan following this consultation period.

TelferYoung initially prepared a 2011 valuation and subsequent to this produced a 2009 valuation for information disclosure.

The valuation of a specialised asset such as an airport either under an existing use or highest and best alternative use basis requires the valuer to make a number of assumptions and subjective professional judgments. The valuation of large blocks of land will often result in a range of valuation possibilities with the valuer arriving at the most probable outcome. Each step in the process requires the valuer to make significant assumptions many of which are subjective due to the lack of any direct market based observable inputs.

The valuations prepared effective 2009 and 2011 follow the methodology required under Schedule A.

### 4.0 TelferYoung Conclusion on Valuation Process

TelferYoung were the first valuers required to undertake a valuation in accordance with Schedule A.

TelferYoung consider the valuations prepared are in accordance with Schedule A and meet all professional standards in terms of compliance and disclosure.

The valuation process adopted was far more extensive than would usually occur with significant consultation with stakeholders to test all inputs and ensuring the valuation assumptions were robust.

We confirm that the final valuations established for 2009 and 2011 are appropriate having regard to the requirements of Schedule A and reflect the most appropriate highest and best use value of the land.



## 5.0 Review of TelferYoung 2009 and 2011 Valuations

Darroch Ltd have undertaken a review of the TY reports for 2009 and 2011. Our comments on issues raised by Darroch are scheduled below.

Schedule Reference	Darroch Comment	TY Comment 2009 Report	TY Comment 2011 Report
A10 (b) Confirm Land Ownership, Tenure and Areas	TY have not searched individual titles to confirm ownership, tenure and land.	TY did not obtain new search for titles as these have previously been reviewed. A full reconciliation of the land areas and ownership interests has been undertaken.	TY did not obtain new search for titles as these have previously been reviewed. A full reconciliation of the land areas and ownership interests has been undertaken.
A10 (c) Zoning	Lack of discussion around the likelihood of the zoning change or the costs.	<p>Clause A10 (c) requires the valuer to <i>“determine the existing or underlying zoning of the land or designations, and the likely zoning of the land for the highest and best alternative use, including the likelihood of zoning change or uplifting of designations”</i>.</p> <p>TY and Boffa Miskell prepared considerable analysis of the possible zoning and a range of potential uses for the land having regard to the surrounding land use patterns and the long term growth strategy for Wellington.</p> <p>The Boffa Miskell plan and rational is fully covered in disclosure documentation previously provided.</p> <p>Clause 18A 10 (c) does not require a consideration of costs and TY consider this appropriate.</p> <p>In a hypothetical scenario such as this a reasonable assumption is that the appropriate zoning would be in place (i.e. the current zoning would not exist).</p> <p>Costs associated with resource consent are allowed for in the development budget.</p>	<p>Clause A10 (c) requires the valuer to <i>“determine the existing or underlying zoning of the land or designations, and the likely zoning of the land for the highest and best alternative use, including the likelihood of zoning change or uplifting of designations”</i>.</p> <p>TY and Boffa Miskell prepared considerable analysis of the possible zoning and a range of potential uses for the land having regard to the surrounding land use patterns and the long term growth strategy for Wellington.</p> <p>The Boffa Miskell plan and rational is fully covered in disclosure documentation previously provided.</p> <p>Clause 18A 10 (c) does not require a consideration of costs and TY consider this appropriate.</p> <p>In a hypothetical scenario such as this a reasonable assumption is that the appropriate zoning would be in place (i.e. the current zoning would not exist).</p> <p>Costs associated with resource consent are allowed for in the development budget.</p>



Schedule Reference	Darroch Comment	TY Comment 2009 Report	TY Comment 2011 Report
<p>A10 (d) To Determine Highest and Best Alternative Use</p>	<p>Insufficient information to confirm that the proposed development is physically possible, appropriately justified, legally permissible and financially feasible.</p> <p>Lack of discussion with Wellington City Council Planning &amp; Legal Personal.</p>	<p>Section 15 of the report has a detailed discussion of potential land uses for the property and the highest and best alternative use. Significant input from Boffa Miskell was provided relative to the potential growth of Wellington which is covered in Section 16 of the report, supply and demand and also market absorption (Section 17).</p> <p>TY and Boffa Miskell undertook a robust analysis of the potential options for this hypothetical development. The final plan is based on realistic assumptions which are fully explained in the valuation report.</p> <p>The Boffa Miskell plan and rational is fully covered in disclosure documentation previously provided.</p> <p>No discussion was undertaken with Wellington City Council (WCC) as WIAL were advised by the WCC that they would not participate in any commercial discussions relative to possible use and potential outcomes. TY also understand that WCC is a 34% shareholder in WIAL which would pose issues of conflict WCC in entering any such discussion.</p>	<p>Section 15 of the report has a detailed discussion of potential land uses for the property and the highest and best alternative use. Significant input from Boffa Miskell was provided relative to the potential growth of Wellington which is covered in Section 16 of the report, supply and demand and also market absorption (Section 17).</p> <p>TY and Boffa Miskell undertook a robust analysis of the potential options for this hypothetical development. The final plan is based on realistic assumptions which are fully explained in the valuation report.</p> <p>The Boffa Miskell plan and rational is fully covered in disclosure documentation previously provided.</p> <p>No discussion was undertaken with Wellington City Council (WCC) as WIAL were advised by the WCC that they would not participate in any commercial discussions relative to possible use and potential outcomes. TY also understand that WCC is a 34% shareholder in WIAL which would pose issues of conflict WCC in entering any such discussion.</p>



Schedule Reference	Darroch Comment	TY Comment 2009 Report	TY Comment 2011 Report
A10 (f) (i) Land Development Plan	In relation to the Land Development Plan identified by Boffa Miskell.	<p>The land development plan was established after extensive consideration of the potential development of the land with a range of options considered prior to confirmation of the final plan. Consultation was undertaken with the airlines, BARNZ and their expert advisors prior to adopting the final plan. This feedback resulted in a reduction in the area allocated to the proposed business park.</p> <p>This is clearly demonstrated in the consultation documents published by WIAL which include TY reports addressing feedback received from the airlines, BARNZ and their advisors including details of changes made to the initial draft valuation as a result of feedback received.</p> <p>As detailed in Section 15 consideration was given to a range of issues when considering the land use options including the impact on the roading network, the provision of both passive and active recreation reserves, complementing the amenity values of Lyall Bay, Evans Bay and the golf course and the fit with the existing land use development.</p> <p>The adopted plan reflected both the physical attributes of the site and the potential for development of the land if the airport did not exist.</p>	<p>The land development plan was established after extensive consideration of the potential development of the land with a range of options considered prior to confirmation of the final plan. Consultation was undertaken with the airlines, BARNZ and their expert advisors prior to adopting the final plan. This feedback resulted in a reduction in the area allocated to the proposed business park.</p> <p>This is clearly demonstrated in the consultation documents published by WIAL which include TY reports addressing feedback received from the airlines, BARNZ and their advisors including details of changes made to the initial draft valuation as a result of feedback received.</p> <p>As detailed in Section 15 consideration was given to a range of issues when considering the land use options including the impact on the roading network, the provision of both passive and active recreation reserves, complementing the amenity values of Lyall Bay, Evans Bay and the golf course and the fit with the existing land use development.</p> <p>The adopted plan reflected both the physical attributes of the site and the potential for development of the land if the airport did not exist.</p>





Schedule Reference	Darroch Comment	TY Comment 2009 Report	TY Comment 2011 Report
A10 (f) (ii) Determine Market Demand	Concern over absorption of residential sections and commercial land (2009). 2011 Report completes.	<p>The 2009 valuation utilised an identical process to the 2011 report. Detailed analysis was undertaken over a 10 year period to establish market absorption for residential sections. Over a 10 year period to 2010 the average number of section sales in the Wellington region were approximately 400 per annum. This was based upon sales statistics obtained from REINZ.</p> <p>While sales data in the two years prior to the date of valuation was lower, it was considered that this was significantly impacted by the effect of the economic downturn at the time and therefore a 10 year period was appropriate.</p> <p>In terms of the absorption of commercial land the absorption reflected the strength of the existing bulk retail development (Airport Retail Park) and surrounding privately owned land and the opportunity to leverage from this existing commercial activity.</p>	<p>The 2011 valuation utilised an identical process to the 2009 report.</p>
A10 (f) (iii) Determine Development Direct Costs	Cost based upon Opus estimate in 2011. Should be reassessed for 2009.	<p>Costs supplied by Opus for the 2011 valuation.</p> <p>Opus confirmed that there would be no material difference between the 2011 costings and those that apply to 2009.</p>	No comment.
Other Considerations	The value of the land assessed for the MVAU must incorporate some value attributable to the formation of the level airport platform.	No value is attributable to the formation of the level airport platform. The land value rates adopted on a comparative basis are for undeveloped block land. The development budget provides for the formation of level building sites for the alternative use scenario and costs for these are incorporated within the development budget.	No value is attributable to the formation of the level airport platform. The land value rates adopted on a comparative basis are for undeveloped block land. The development budget provides for the formation of level building sites for the alternative use scenario and costs for these are incorporated within the development budget.



Schedule Reference	Darroch Comment	TY Comment 2009 Report	TY Comment 2011 Report																		
	The value of the sea wall/protection is included in the value of the land and has not been valued separately.	No value has been added for the seawall.	No value has been added for the seawall.																		
	The valuation does not make any deduction or allowance for any remediation costs as required under Schedule A.	Clause A9 (15) states that "as such there must be no deduction made for any remediation or demolition costs".	Clause A9 (15) states that "as such there must be no deduction made for any remediation or demolition costs".																		
	2011 Valuation does not include all freehold land.	No comment.	<p>The valuation reconciles the land areas in an identical way to the 2009 valuation excluding:</p> <ul style="list-style-type: none"> <li>+ Airport Retail Park</li> <li>+ Residential East - West</li> <li>+ Investment Property - North and South</li> <li>+ Moa Point</li> </ul> <p>The freehold land area reconciliation is:</p> <table style="margin-left: 20px;"> <tr> <td><b>Total Area</b></td> <td style="text-align: right;"><b>111.60</b></td> </tr> <tr> <td><b>Less:</b></td> <td></td> </tr> <tr> <td>Moa Point</td> <td style="text-align: right;">1.90</td> </tr> <tr> <td>Airport Retail Park</td> <td style="text-align: right;">3.27</td> </tr> <tr> <td>Residential East</td> <td style="text-align: right;">0.49</td> </tr> <tr> <td>Residential West</td> <td style="text-align: right;">1.47</td> </tr> <tr> <td>North Investment</td> <td style="text-align: right;">0.38</td> </tr> <tr> <td>South Investment</td> <td style="text-align: right;"><u>0.89</u></td> </tr> <tr> <td><b>Adjusted Area</b></td> <td style="text-align: right;"><b>103.20</b></td> </tr> </table>	<b>Total Area</b>	<b>111.60</b>	<b>Less:</b>		Moa Point	1.90	Airport Retail Park	3.27	Residential East	0.49	Residential West	1.47	North Investment	0.38	South Investment	<u>0.89</u>	<b>Adjusted Area</b>	<b>103.20</b>
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## 6.0 Darroch Conclusions

For both the 2009 and 2011 reports Darroch made the statement that

*“Generally, the requirements in Schedule A have been followed however, there are several areas where further more detailed research should have been undertaken to ensure full compliance - notably in the investigation and searching of titles to ensure ownership, tenure and any encumbrances. Nor was there any mention/discussion around the costs of any zoning changes, limited discussion around the land development rationale, and a review of the seven year realisation period would in my view be appropriate”.*

All these issues have been discussed. A full reconciliation of titles and ownership has been undertaken. Issues surrounding zoning and land use development have been fully discussed in the valuation reports. The rationale for a 7 year realisation period is discussed in the report based upon projected absorption of individual land use types.

There has been no allowance for airport runway formation and sea protection in the assessed valuations.

## 7.0 Commentary

The required valuation methodology is detailed in **Schedule A Airport Land Valuation Methodology**. A summary of the key requirements follows:

- (1) **Clause A8 Applicable MVAU Valuation Methods** details three valuation methods. All three methods have been utilised in the 2009 and 2011 valuations.
- (2) **Clause A9 Practical Valuation Requirements** require that:
  - (a) Land valued as aggregate and vacant.
  - (b) Have regard to zoning.
  - (c) Rely on sales evidence for land unaffected by the supply of specified airport activities.
  - (d) Exclude airport conversion cost.
  - (e) Exclude allowance for remediation.

Both reports comply with these requirements.

- (3) **Clause A10 Valuation Steps** requires:
  - (a) Compile a schedule of land parcel
  - (b) Confirm ownership, tenure and area
  - (c) Determine existing zoning
  - (d) Determine likely zoning
  - (e) Consider Resource Management requirements
  - (f) Prepare a development plan with expert assistance
  - (g) Undertake market research and comparable sales
  - (h) Apply adjusted market evidence
  - (i) Reconcile approaches and determine final value
  - (j) Prepare a valuation report

Both reports comply with these requirements.





We note that the Darroch reports conclude that the valuations comply with the majority of requirements in Schedule A. We have provided comments to demonstrate that we have complied with all requirements in Schedule A.

We reiterate that completing a valuation on the highest and best alternative use for the airport land is a very hypothetical scenario and as such requires considerable assumptions and professional judgment. There are a number of feasible options available for the hypothetical development of the land however we consider that the model adopted identifies the highest and best alternative use. The plan prepared and the valuations are founded on robust assumptions and meet the feasibility requirements of being physically possible, appropriately justified, legally permissible and financially feasible.

Schedule A requires a market value alternative use of the land in its highest and best alternative use. The MVAU is required to result in the highest valuation of the land.

Following the Commerce Commissions final feedback, should TelferYoung be required to undertake further valuations for WIAL in the future we will consider whether further clarity is required to assist the Commission and other interested parties.

Yours faithfully  
TelferYoung (Canterbury) Limited

C N Stanley - M Prop Stud (Distn) FNZIV, FPINZ, AAMINZ  
Registered Valuer  
Email: [chris.stanley@telferyoung.com](mailto:chris.stanley@telferyoung.com)

