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Airport Land Valuation Methodology Workshop Wellington Airport, Sunderland Room 2 October 2015

Purpose

The purpose of this paper is to provide the draft agenda, format and discussion points for the Commerce Commission's (Commission) workshop on the IM review airport fast track relating to the application of the MVAU land valuation methodology.

The airports fast track process is intended to be completed by early February 2016. This workshop will be held in the Sunderland Room at Wellington Airport on Friday 2 October 2015.

Background

The Commission has decided to fast track the consideration of airport services land valuation methodology amendments. The land valuation methodology amendments are scheduled to be made available prior to the end of February 2016 so that MVAU land valuations can be prepared consistent with the input methodologies prior to the commencement of the 2017 price-setting consultation.

The scope of the amendments being considered as part of this fast track process is the application of the MVAU airport land valuation methodology. As set out in the Commission's update on fast track amendments dated 3 July 2015, the Commission will be focusing on:¹

- ▶ narrowing the potential range of airport land values that can be derived under the requirements, including removing compliance ambiguities;
- ▶ updating the airports land valuation requirements so they align to the current valuation standards and valuation industry practices applying in New Zealand; and
- ▶ considering when land valuation methodology amendments will apply.

Consideration of the appropriateness of using a MVAU methodology is not within the scope of the fast track process. This is open to be considered as part of the main IM review. This allows consideration of the appropriateness of the methodology alongside the other airport services IMs.

EY has been contracted by the Commission to assist it in updating the airport services land valuation methodology, including:

- ▶ preparing drafts of the material required for the workshop;
- ▶ facilitating the workshop;
- ▶ providing expert advice on issues raised during the consultation process and on proposed amendments to the airport land valuation methodology; and
- ▶ assisting the Commission to draft any amendments to the airport land valuation input methodology.

Workshop Objectives

The objective of the workshop is for the Commission to;

- ▶ understand stakeholder views on the factors that drive differences in valuation outcomes under MVAU; and

¹ Commerce Commission, Input Methodologies Review Process Paper - Update on Fast Track Amendments, 3 July 2015.

- ▶ understand stakeholder views on possible changes to the airport land valuation methodology and land valuation process run by the airports, as driven by sound valuation and economic principles.

Role of the Workshop within the Consultation Process

This workshop is a step in the Commission's process for considering amendments to the application of the airport services land valuation methodology. Following the workshop the Commission plans to release the draft land valuation methodology amendments reasons paper and determination for consultation. This is expected to be released in early November 2015.

The workshop will provide an opportunity for stakeholders to share ideas and discuss views related to the airport land valuation methodology. Stakeholders will be provided an opportunity to submit on any matters covered in the workshop as part of the draft decision consultation process. The Commission may provide an opportunity for stakeholders to make written submissions following the workshop but prior to the draft decision on specific topics, but only where it is likely to add value to the draft decision process. The case for providing submissions prior to the draft decision will be discussed on a case by case basis during the workshop.

The planned timetable for updating the airport services land valuation methodology is set out below.

Table 1: Airport services land valuation methodology process

No.	Process Step	Indicative Timeframe
1	Publication of material for workshop	15 Sep 2015
2	Workshop to discuss airport fast tracked issues, including framework for applying the MVAU valuation approach	2 Oct 2015
3	Draft decision and amendments	Early Nov 2015
4	Submissions on our draft decision and amendments	Early Dec 2015
5	Cross-submissions on our draft decision and amendments	Mid Dec 2015
6	Final decision and amendments	Late Feb 2016

Workshop Agenda and Topics

The workshop will be chaired by Paul Melville (EY) with Commission staff and advisers (EY) attending and participating in the workshop. Commissioners will not be attending the workshop.

The objectives of the workshop are to understand stakeholder views on the factors that drive differences in valuation outcomes and the possible changes to airport land valuation methodology. To meet these objectives we have compiled a draft list of matters for discussion at the workshop. The Commission would like to use the workshop sessions to:

- ▶ discuss the draft list of matters including identifying any that are missing or should not be covered by the workshop;
- ▶ discuss and understand stakeholder views on the materiality of the issues or group of issues with respect to driving valuation differences;
- ▶ discuss and understand stakeholder views on the need to update the land valuation methodology or asset valuation process run by the airports to address or reduce the impact of the issues or groups of issues identified; and
- ▶ explore possible changes to the land valuation methodology or asset valuation process to address or reduce the impact of issues identified.

The Commission will be looking for the stakeholders to lead the discussion within the framework above, through a combination of presentations and group discussion.

Appendix A sets out the Commission's draft agenda for the workshop while Appendix B sets out the matters for discussion in more detail.

Workshop Format and Process

The Commission will use a round table type format to allow an open discussion and exchange of information between the key stakeholders. The Commission seeks to canvass a full range of views by inviting presentations from, and discussions with, workshop participants.

Projection facilities will be available should participants wish to use them.

Any thinking or views expressed by Commission staff or its advisors at the workshop are for the purpose of stimulating discussion. The Commission's formal position will be provided in the draft decision intended to be published in November 2015.

Experts

The Commission expects that experts attending the workshop will do so as impartial experts in their fields rather than as an advocate for any particular party.

Confidential Information

The Commission's does not intend to hold any closed sessions for participants providing confidential information during the workshop. If parties wish to discuss confidential information at the workshop, please advise Hamish Groves at the Commission on 04 924 3600 by 21 September 2015.

Workshop Recording

The workshop will not be recorded or transcribed. High level minutes will be taken at the workshop and published on the Commission's website.

Registering Attendance and Contact

The Commission requires all persons attending the workshop to register. To register, please email the Commission at im.review@comcom.govt.nz with the information outlined in the table below. If you have any questions please contact Hamish Groves on 04 924 3888 or at hamish.groves@comcom.govt.nz.

No.	Names of attendees (including experts)	Email addresses of attendees	Dietary Requirements (if any)	Technology Requirements (if any)
1				
2				

Appendix A: Draft Workshop Agenda - Location: Wellington Airport Sunderland Room

Ref	Start	Session Topic	Duration
1	9.00	Introduction and Welcome	5 minutes
2	9.05	Agenda and Purpose <ul style="list-style-type: none"> ▶ Overview of the workshop agenda ▶ Overview of the purpose of the workshop 	10 minutes
3	9.15	Role of Information Disclosure <ul style="list-style-type: none"> ▶ Role of information disclosure and relationship with pricing 	15 minutes
4	9.30	MVAU Framework <ul style="list-style-type: none"> ▶ Role of Specified Airport Services Input Methodologies Schedule A (guidance or prescriptive) ▶ Schedule A and valuation standards 	30 minutes
5	10.00	Drivers of Valuation Variations <ul style="list-style-type: none"> ▶ Issues or ambiguities in Schedule A driving variations in valuation ▶ Options for removing or reducing ambiguities in Schedule A 	60 minutes
	11.00	Morning Tea	15 minutes
6	11.15	Key Airport Inputs <ul style="list-style-type: none"> ▶ Fact sheet for airport land information and other relevant inputs ▶ Process for determining agreed fact sheet 	30 minutes
7	11.45	Highest and Best Alternative Use Plan <ul style="list-style-type: none"> ▶ Process for developing HBAU plan ▶ Demand, timing and other analysis required to develop HBAU plan ▶ Reducing ambiguities associated with HBAU 	75 minutes
	1.00	Lunch	60 minutes
8	2.00	Highest and Best Alternative Use Plan (continued) <ul style="list-style-type: none"> ▶ Process for developing HBAU plan ▶ Demand, timing and other analysis required to develop HBAU plan ▶ Reducing ambiguities associated with HBAU 	30 minutes
9	2.30	Consistency and Transparency <ul style="list-style-type: none"> ▶ Use of consistent valuation model (software) across airports ▶ Use of consistent reporting schedule approach across airports ▶ Explanation and reconciliation of changes in valuation over time ▶ Explanation and reconciliation of differences between MVAU land valuations and valuation information contained in information disclosure ▶ Supporting information for market based inputs 	60 minutes
	3.30	Afternoon Tea	15 minutes
10	3.45	Divergence in MVAU Outcomes <ul style="list-style-type: none"> ▶ Reasonable range of MVAU outcomes ▶ Need for a process to resolve difference outside range 	30 minutes
11	4.15	Valuation Changes Resulting from Changes to the IM <ul style="list-style-type: none"> ▶ Treatment of historic valuations, future valuations and effect on ROI 	30 minutes
12	4.45	Wrap Up <ul style="list-style-type: none"> ▶ Further information required and next steps 	15 minutes
	5.00	Workshop close	

Appendix B: Key Components of Asset Valuation Methodology for Discussion

Agenda Ref	Issue	Workshop Objective	Discussion Points
3	The structure and direction provided by Schedule A to the Specified Airport Services Input Methodologies Determination 2010 (Schedule A).	Understand stakeholder views on the structure, and direction provided by, Schedule A and possible changes driven by current standards.	<p>Discuss the role of Schedule A including the level of guidance and/or direction to be included.</p> <p>Discuss changes in valuation standards and the potential impact on Schedule A, including:</p> <ul style="list-style-type: none"> ▶ Schedule A (A3 - Professional Valuation Framework) refers to IVS 2 Bases Other Than Market Value; IVS 3 Valuation Reporting; IVGN 1 Real Property Valuation; and ANZVGN 1 Valuation Procedures Real Property. ▶ The IVS framework was restructured in 2011 and again in 2013. IVS 2 was deleted with the terminology "Bases Other than Market Value" removed and subsumed into the IVS Framework. IVS 3 was replaced with IVS 103 Reporting. ▶ The concept of IVS 2 is now Market Value with Special Assumptions, effective 2011. ▶ Special Assumptions are defined as 'an assumption that either assumes facts that differ from the actual facts existing at the valuation date or that would not be made by a typical market participant in a transaction on the valuation date' (Source : Definitions - IVS 2013). This seems to cover the HBAU / MVAU need for the valuation of the airports. ▶ It is not anticipated that the restructuring of the IVS will have an impact on the valuation opinion or the methodology used to determine the value but we are seeking feedback from stakeholders to that effect. ▶ It is expected that Schedule A be redrafted to reflect the changes in IVS and ANZVGN and the wording and terminology used in valuation reports be amended in the future to accord with current professional valuation guidance. ▶ We are seeking feedback as to whether A4, A5, A6 and A7 could be replaced by the rewording of A3 to the effect that the valuations 'must accord with IVS and ANZ Property & Valuation Standards' thus removing the issue of Schedule A becoming out of date due to changes in standards.

Agenda Ref	Issue	Workshop Objective	Discussion Points
4	Ambiguities in Schedule A which is resulting in material valuation differences.	Understand stakeholder views on the key ambiguities within Schedule A.	Discuss rules that are driving material differences in valuation. This would include treatment of airport land zoning and associated costs within the Highest and Best Alternative Use (HBAU) plan.
5	Difference in the understanding of the facts of each airport.	Understand stakeholder views on the need for a published set of valuation related facts for each airport.	Discuss whether there would be benefits from each Airport preparing and publishing standard fact sheets on airport land which can be used in the valuation.
6&7	The HBAU plan and hypothetical subdivision costs.	Understand stakeholder views on whether there would be benefits from separating the development of the HBAU plan and subdivision costs from the valuation process and agreeing the HBAU ahead of the valuers being instructed.	<p>Discuss whether there would be benefits from having a separate process for the development and agreement of the HBAU plan and subdivision costs prior to the valuer being instructed. The process could consist of airports releasing the HBAU plan and subdivision costs to stakeholders for consultation on a cycle that reflects possible material change to the HBAU assumptions (less regular than valuation cycle).</p> <p>Discuss the level of economic analysis relating to market demand and the time period for the sale or realisation of the developed land.</p>
8	Different valuation results arising from valuation models.	Understand stakeholder views on a standard valuation model (software) across the airports.	Discuss whether there would be benefits from developing and using a consistent valuation model (software) used by all valuers to enable better comparison between valuers, airports and valuation dates.
8	Inconsistent report formats between valuers is resulting in a lack of clarity as to how the valuation results were reached.	Understand stakeholder views on improvements in report formatting to allow for better understanding of valuations.	Discuss whether there would be benefits from preparing a schedule which the valuation must produce as part of the valuation report so key valuation inputs and results could be better understood.
8	Explanation and reconciliation of changes to valuations over time.	Understand stakeholder views on greater levels of transparency relating to how valuations change over time.	Discuss whether there would be benefits from amending the IMs to instruct the valuer to provide an explanation as to why and where the valuation has changed from the prior valuation report. Areas could include changes in assumptions, facts and market movements.

Agenda Ref	Issue	Workshop Objective	Discussion Points
8	Explanation and reconciliation between the MVAU land valuation and the information disclosure.	Understand stakeholder views on greater levels of transparency relating to any differences between MVAU land valuation and the valuation information contained in information disclosure.	Discuss whether there would be benefits from amending the IMs to require a reconciliation and explanation of any differences between the MVAU land valuation and the valuation information contained in information disclosure.
8	Lack of supporting information on market based inputs.	Understand stakeholder views on improving the supporting information for market based inputs used by the valuers.	<p>Some of the reports sampled appear to include a good level of support for market based inputs on revenues, but analysis of other key drivers such as market absorption rates is less rigorous. In some cases there is limited analysis or support for discount rates / profit and risk factors.</p> <p>Discussion on the benefits of providing further information to support market based inputs.</p>
9	Divergence of expert opinions.	Understand stakeholder views on what is an acceptable variation in MVAU outcomes and whether there needs to be a process to resolve variations outside this range.	<p>It is reasonable to expect that all experts (planners, engineers, valuers) will have a divergence of professional opinion. Given this we would like to discuss:</p> <ul style="list-style-type: none"> ▶ what is a reasonable range of MVAU outcomes and is it necessary to put a framework in place to resolve variations outside the range. ▶ whether the difference in MVAU would be reduced to an acceptable level if the inputs to the MVAU (airport facts, HBAU plan, treatment of zoning costs) calculation could be agreed; and ▶ whether the valuers would benefit from being made aware of the divergence in opinion on the HBAU plan.
10	Treatment of valuation changes resulting from changes to the IM.	Understand stakeholder views on how to treat valuation changes resulting from changes to the IMs.	Discussion on how changes to airport valuations resulting from changes to the IMs might be treated, including whether previous valuations might be updated to reflect the latest rules and how they might be handled in terms of the airports profit and loss statement.

Appendix C: Workshop Attendees

#	Representing	Name	Position	Email Address
1	Auckland Airport	Adrienne Darling	Acting Head of Regulatory and Pricing	adrienne.darling@aucklandairport.co.nz
2	Auckland Airport	Michael Graham	Manager Finance	michael.graham@aucklandairport.co.nz
3	BARNZ	Dougal Smith- Expert - Property Advisory	Registered Valuer	dougal@propertyadvisory.co.nz
4	BARNZ	Mike Foster - Expert - Zomac Planning Solutions Ltd	Director	mike@zomac.co.nz
5	BARNZ	John Beckett	Executive Director	john@barnz.org.nz
6	BARNZ	Kristina Cooper	Legal Counsel	kristina@ihug.co.nz
7	BARNZ	Sean Ford	Manager Aeronautical Suppliers	sean.ford@airnz.co.nz
8	Christchurch Airport	Andrew Souness	Regulatory and Asset Accounting Manager	andrew.souness@cial.co.nz
9	Christchurch Airport	Tim May	Chief Financial Officer	tim.may@cial.co.nz
10	Commerce Commission	Hamish Groves	Consultant	hamish.groves@comcom.govt.nz
11	Commerce Commission	John McLaren	Manager, Compliance and Performance Analysis	john.mclaren@comcom.govt.nz
12	Commerce Commission	Stephanie Dwan	Project Administrator	stephanie.dwan@comcom.govt.nz
13	Commerce Commission	Florian Steinebach	Senior Analyst	florian.steinebach@comcom.govt.nz
14	EY	Paul Melville	Associate Director	paul.melville@nz.ey.com
15	EY	Richard Bowman	Partner	richard.bowman@au.ey.com
16	EY	Abhay Padia	Senior Consultant TAS	abhay.padia@nz.ey.com
17	NZAA	Christopher Graf	Senior Associate	christopher.graf@russellmcveagh.com
18	NZAA	Kevin Ward	Chief Executive	kevin.ward@nzairports.co.nz
19	NZAA	Kieran Murray		kmurray@srgexpert.com
20	NZAA	Chris Stanley		chris.stanley@telferyoung.com
21	NZAA	Richard Chung		richard.chung@wcc.co.nz
22	NZAA	Mike Basher		mike.basher@kooba.co.nz
23	NZAA	Craig Shrive		craig.shrive@russellmcveagh.com
24	Wellington Airport	Martin Harrington	Chief Financial Officer	martin.harrington@wellingtonairport.co.nz
25	Wellington Airport	Meena Parbhu	Legal Counsel	meena.parbhu@wellingtonairport.co.nz

Disclaimer

The purpose of the Airport Land Valuation Methodology Workshop paper is to set out the draft agenda, format and discussion points for the Commission's workshop on the IM review airport fast track relating to the application of the MVAU land valuation methodology. EY accept no responsibility whatsoever for reliance on this report other than for the purpose for which it was intended.

Reliance on Information

In forming this report, EY has relied on information provided by the Commission. Our duties, while involving an assessment of information provided and commenting as necessary, do not extend to verifying the accuracy of the information, and EY have assumed its authenticity and completeness.

Review of report

EY reserves the right, but is under no obligation, to review any assumptions included or referred to in this report and, if EY consider it necessary, to revise our report in light of any information, inaccuracies, or alterations to the information provided that are relevant to this report, which was in existence and becomes known to us after the date of this report.



Personnel CV



Richard Bowman

Partner

Valuations and Business Modelling

Office: Melbourne

Email: richard.bowman@au.ey.com

Richard is a Partner in our Real Estate Advisory team. Richard has in excess of 20 years property experience, specialising in financial due diligence, capital and rental valuations of commercial, industrial and retail properties for acquisition, annual reporting and strategy purposes.

Key clients and significant engagements

- ▶ SACL - Valuation of Investment Property and Terminal Buildings, Sydney Airport, 2014.
- ▶ Canberra Airport Group - Valuation of investment properties including terminal buildings and carparks for financial reporting and bank finance purposes, 2014..
- ▶ Port of Melbourne - Rental determination and valuation experience on leasehold properties around the port, including Swanson Dock West, Pier 35, South Wharf, Footscray Road, West Melbourne and the Dynon Freight Terminal.
- ▶ Moorabbin Airport - Valuation of Moorabbin Airport for dispute resolution purposes and provided expert advice on the workings of a profit share arrangement.
- ▶ Tasmanian Gateway Corporation - Conducted valuations of Hobart Airport over a two year period for fair value accounting purposes. Assets comprised land and buildings (operational, buffer, environmental, investment and surplus).
- ▶ Westralia Airports Corporation - valuation of land.
- ▶ Moorabbin Airport, VIC - Valuation for dispute resolution purposes and provision of expert advice on the workings of a profit share arrangement.



Airports IM review Land Valuation Workshop

Introduction and Welcome

02 October 2015

John McLaren



Introduction and Welcome



Commerce Commission

John McLaren – Introduction and Welcome

Hamish Groves

Florian Steinebach

Ernst and Young

Paul Melville – Workshop facilitator

Richard Bowman – Expert valuer





Airports IM review Land Valuation Workshop

Role of Information Disclosure

02 October 2015

Hamish Groves



Setting the scene



Overview of regulatory framework and how this workshop fits into regime



Relevant Airports Regulation



Commerce Act 1986

- Auckland, Wellington and Christchurch airports
- Information disclosure regulation only
- Subject to Part 4 regulation since 2008

Airport Authorities Act 1966



Purpose of information disclosure

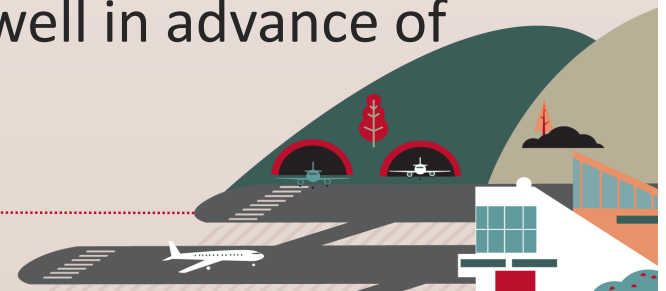
To ensure sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met



IM Review and the fast track process



- Statutory requirement to review IMs every 7 years
- Fast track amendments focused on targeted issues for amendment and are considered on a different timeframe from the overall IM review
- Airport fast track process is focused on application of the MVAU land valuation methodology
- The fast track amendments will be completed and re-integrated back into the overall IM review process prior to the draft decision
- Amendments to be available to be used well in advance of the 2017 price setting events





Airports IM review Land Valuation Workshop

Valuation Changes Resulting from Changes to the IM

02 October 2015

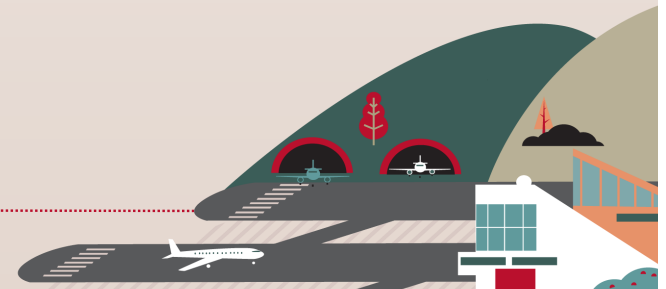
Hamish Groves



Overview of issue



- Potential for valuation changes resulting from changes to the IM requirements
- Under the current requirements any change in valuation affects
 - Regulatory asset base; and
 - Regulatory profit through non-indexed revaluations



Discussion points



Areas for discussion	Discussion points/questions?
1. Effective date for changes in the valuation requirements	<ul style="list-style-type: none">• Should changes be effective from<ul style="list-style-type: none">• beginning of regime;• the date of the amendment determination; or• the next valuation date?• Should the original valuation be used in the profitability assessment until the effective date of the change?• MVAU valuations are currently optional, should one be required so that the changes become effective by a certain date?
2. Regulatory profit treatment	<ul style="list-style-type: none">• If the IM change results in a change in valuation, how should the resulting change in value be recognised in regulatory profit?• Should there be a distinction between changes in valuation resulting from the removal of ambiguity and changes in policy?• Do we need to separately identify the effect of non-compliance with original requirements?
3. Identifying changes in valuation resulting from changes to the IM	<ul style="list-style-type: none">• How can valuation changes resulting from changes to the IM be separately identified from other valuation changes?





Airports IM review

Main IM review process

02 October 2015

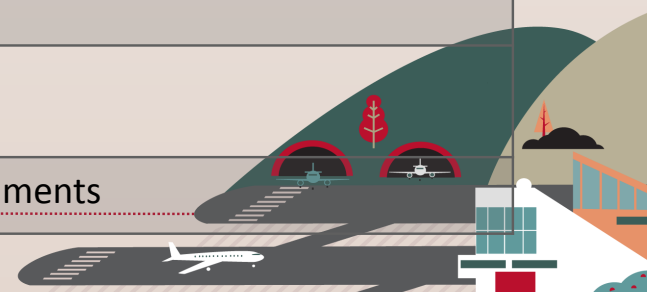
Hamish Groves



Main IM Review – suggested steps



Indicative Timing	Draft consultation step
16 Oct 2015	Workshop 1 email notification
Mid/late Oct 2015	Detailed process update
Week beginning 26 Oct 2015	Publication of workshop 1 agenda and papers
Week beginning 16 Nov 2015	Airports main IM review workshop 1 <ul style="list-style-type: none"> • Approach to airports profitability assessment • Application of WACC
Nov 2015	Draft decision - airports fast track
Dec 2015	Submissions and cross submissions – airports fast track
Feb 2016	Final decision – airports fast track
Early Feb 2016	Confirmation of date for workshop 2
Feb/Mar 2016	Publication of Workshop 2 agenda and papers
Feb/Mar 2016	Airports main IM review workshop 2 <ul style="list-style-type: none"> • Agenda to be confirmed
May 2016	Main IM review draft decision, reasons and amendments





DISCUSSION OF HOW ZONING CHANGES SHOULD BE REFLECTED IN MVAU SCHEDULE A VALUATIONS

THE ZONING ISSUE – BARNZ'S VIEW

- Schedule A requires the valuer to consider the costs of obtaining any necessary changes to zoning or designations to allow the land to be converted to its alternative use
- Schedule A clearly specifies that the starting point is the aeronautical zoning or designations
- The direct and indirect costs of obtaining the necessary zoning changes are part of the costs of developing the land and need to be reflected in the valuation

THE ZONING ISSUE – WIAL'S VIEW

- WIAL says Schedule A requires the assumption that the land is already zoned similar to surrounding areas and not zoned as an airport
- This is because the valuation should not recognise the existing presence of airport
- Required planning period should range from:
 - Nil as no planning changes required
 - 12 – 16 months for a board of inquiry process
- WIAL allowed 9 months for planning changes

SCHEDULE A9 PRACTICAL VALUATION REQUIREMENTS

A9 Practical Valuation Requirements states that in undertaking an MVAU valuation the valuer must ...

(b) have regard to designation, zoning and other district plan and legal requirements applying to the land.

The explanatory notes to A9 state:

(4) The land is likely to be designated or zoned for the various aeronautical activities of the airport owner. In addition to considering the likely alternative uses for the land, the valuer should also consider the likelihood of the designation being uplifted or the land rezoned, and costs (if any) likely to be involved in this. (emphasis added)

SCHEDULE A 10 MVAU VALUATION STEPS

A10 MVAU Valuation Steps states that in undertaking an MVAU valuation the valuer must:

(c) 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 designations.

(e) Consider resource management (including reserve) requirements

(f) (iii) determine the direct costs of developing the land, including but not limited to roading, supply of services, legal, sales costs etc

(f) (iv) determine any indirect costs of developing the land, eg the developer's holding costs, local authority rates etc

COMMERCE COMMISSION PEER REVIEW RECOGNISED ZONING COSTS

- Darrochs was commissioned by the CC to undertake a peer review of WIAL's 2009 and 2011 valuations.
- Darrochs concluded WIAL's 2009 and 2011 valuations did not comply with the requirements of Schedule A with respect to taking into account zoning requirements, specifically because of:
 - A lack of consideration of costs or likelihood of obtaining planning changes
 - Use of an insufficient 7 year development period (Darrochs considered 10 years or longer required)

OTHER AIRPORTS ALLOWED FOR ZONING CHANGES

- AIAL allowed one year to obtain planning changes for the first stage of its development. Other stages were adjusted to reflect their deferment over total 17 year sell-down period.
- CIAAL made an adjustment to its valuation of \$50m to reflect the costs, time and risk of obtaining planning changes

ZONING COSTS RELEVANT UNDER IVS STANDARDS

- IVS standards require that an asset's market value be determined with reference to comparable market evidence in their highest and best use.
 - This is “..the use of an asset that maximizes its potential and that is possible, legally permissible and financially feasible.”
- The highest and best use shall be:
 - For continuation of an asset's existing use or for some alternative use
 - Considered possible by a prudent market participant
 - Legally permissible
 - Financially feasible and generate sufficient return after taking into account all costs of conversions to that use.
- The IVS standards require all valuation inputs be established by reference to comparable market based evidence. Valuation inputs and benchmarks may be obtained from
 - Transactional evidence,
 - Historical supply and demand analysis
 - Third party expert advice (planning, HBAU, development costs etc)

REAL WORLD EXAMPLES SUPPORT 2 TO 3 YEARS

- Beachlands Village Business Centre (\$220m value) Rezoning and Consenting
- Hobsonville Village Centre (\$150m value) Rezoning and Consenting
- Vinegar Lane mixed use, residential, offices, and retail (\$250m value) Consenting
- Albany Town Centre (\$120m value) Consenting

9 MONTHS ALLOWANCE FOR WIAL INSUFFICIENT

- The time allowed to obtain zoning changes must reflect the extent of the changes being sought and likely community acceptability
- WIAL'S alternative use described by its own planning experts as '*a game changing proposition that would force the entire planning of Southern Wellington to be reviewed*'.
- WIAL's 9 month allowance insufficient
- Legal and planning advice received by BARNZ is that 2 to 3 years is realistic

CONCLUSION

- Schedule A directs that existing airport land zones is the starting point
- The valuer must determine what zoning changes are required for the alternative use and the likelihood of obtaining these.
- The direct and indirect costs of obtaining any necessary zoning changes must be taken into account.
- Direct costs include council, legal and specialist costs to obtain the zoning changes.
- Indirect costs includes the developer's holding costs while the zoning changes are obtained.
- The time allowed to obtain the zoning changes must be realistic in light of the proposed alternative use.

HBAU PROCESS

- HBAU plan and valuation iterative therefore need to occur simultaneously to assess what use is highest and best
- Independent economic analysis of the supply and demand for various land uses is required as an initial step to determine:
 - What alternative land uses are justified and feasible?
 - What development and sell-down period is appropriate and financially feasible?
- The economic analysis needs to include quantitative consideration of:
 - Likely population size of development
 - Likely catchment area for any retail, business or industrial activities
 - Employment projections for the development
 - Current and future demand for residential, retail, business, industrial or other proposed activities
 - Likely absorption rates for sales in the development

CONSISTENT REPORTING – VALUATION REPORT

- Valuation report should remain key information source
- Recommend expanding A10(j) guidance on content of valuation report
- Potential useful additions to valuation reports
 - Executive summary
 - Explanation of changes over time
 - Economic analysis supporting supply and demand assumptions
 - Evidence or explanations underlying the adopted development costs

CONSISTENT REPORTING – DISCLOSURES

- Summary disclosure of key outputs of valuation can usefully supplement but should not replace valuation report
- Explanation and reconciliation by airport of any differences between valuer's MVAU valuation and the disclosed RAB land valuation would be useful

CONSISTENT REPORTING – DISCLOSURE SCHEDULE

- A disclosure schedule would give interested persons easy access to the key valuation outputs
- Potential matters for inclusion:
 - Land area
 - Average per ha value adopted
 - Allocation of value across RAB if this varies for different land areas
 - Short explanation of valuation methodologies adopted
 - Quantification of change over time in total and per ha
 - Short explanation of key reasons for change