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26 October 2012

Attention: John Beckett

Board of Airline Representatives NZ
PO Box2779
Auckland 1140

Dear Sir

RE: AIAL LAND VALUATION REVIEW

1.0 BACKGROUND

1. In accordance with your instructions we have carried out a peer review of the MVAU land valuation report that is being used by Auckland International Airport Ltd (AIAL), in their pricing consultation with substantial airline customers.

2. The AIAL land valuation was prepared by Colliers International NZ Ltd (Colliers) on 30 June 2011, and is entitled "Market Value Alternate Use – Auckland International Airport, Mangere Auckland."

3. As requested our peer review of the Colliers MVAU valuation provides comment on the following matters:

   - Whether the valuation has been undertaken in accordance with Schedule A of the Commerce Commission Input Methodologies for Airport Services under Part 4 of the Commerce Act.

   - Whether the land use plan represents a use that is physically possible, appropriately justified, legally permissible and financially feasible, as per the Commerce Commission directive, and

   - Whether the inputs to the discounted cash-flow subdivision component of the valuation are appropriate and reasonable.

4. We note that as part of the consultation process a teleconference call was held between AIAL planners Common Ground (CG), and Colliers. This teleconference call was used by AIAL to give Board of Airline Representatives of New Zealand (BARNZ) consultants an overview of the valuation and planning matters utilized by Colliers when valuing the airport land.
5. In undertaking this review we have relied on information that has been provided by AIAL, Colliers, BARNZ, Zomac Planning Solutions (ZPS), Market Economics (ME), Statistics New Zealand, Auckland Regional Council, and a number of real estate agents and local property developers. This information includes property details, land areas, resource documentation, planning and resource consent data, historical and projected population and building consent information, plus sales information. We have relied on this information and reserve the right to amend our assessment if the information or adopted valuation assumptions prove erroneous.
6. In undertaking this valuation peer review I confirm that I have read, and agree to comply with, the High Court Code of Conduct for Expert Witnesses. Furthermore I confirm that the evidence I am providing is within my area of expertise, except where I state otherwise and that I have not omitted to consider material facts known to me that may alter or detract from the opinions that I express.
7. As requested we have adopted a brief reporting format. Additional information is held on file and is available if required.

2.0 MVAU - METHODOLOGY

8. On 22 December 2010, the Commerce Commission released Decision 709 entitled "Commerce Act (Specified Airport Services Input Methodologies) Determination 2010."

9. Schedule A to Decision 709 sets out the mandatory requirements for a valuer to apply when undertaking a valuation of land held by an airport for specified airport purposes.

10. In summary land valuations are required to be performed as if the specified airport land were to be put to its Highest and Best Alternative Use (HBAU). This is termed Market Value in the Alternative Use (MVAU).

11. The key concept of MVAU, is that it reflects the most probable use of airport land, other than for the supply of specified airport services, or a use that is influenced by specified airport services, which is legally possible, appropriately justified, legally permissible, financially feasible, and results in the highest valuation of the land in question.

12. Section A10 of Decision 709 sets out the mandatory valuation steps that valuers must follow when carrying out an MVAU valuation.

13. A check list of these mandatory valuation steps against the Colliers valuation is contained in Table 1.

Table 1. A10 – Valuation Steps /Methodology

Valuation Steps - A10		Assessment	Comment
(a)	Schedule land to be included in MVAU	Yes	Summary tables only
(b)	Confirm ownership, tenure and aggregated land area	Yes	Some minor discrepancies in property details
(c)	Determine existing zoning and likely zoning of the land for the HBAU	Yes	
(d)	Consider and determine the HBAU, which must be - Physically possible Appropriately justified Legally permissible and Financially feasible	Yes	Subject to differences of opinion as to the appropriate commercial / residential land use mix and sell down period
(e)	Consider resource management requirements, amenities in the area and access to services	Yes	

Table 1. A10 – Valuation Steps /Methodology - Continued

Valuation Steps - A10		**Assessment**	**Comment**
(f)	For notional subdivision / residual value approaches Prepare a land development plan (in conjunction with a planner where considered necessary by the valuer). This should demonstrate the valuers view of the likely HBAU development of the land, and provide evidence for the assessment of inputs into the notional subdivision / residual value approaches; 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; Determine the direct costs of developing the land, including roading, supply of services, legal, sales costs etc; Determine any indirect costs of developing the land, including developers holding costs etc;	Yes Common Ground Urban Design Colliers	Subject to differences of opinion as to the appropriate commercial / residential land use mix and sell down period
(g)	Undertake market research and obtain comparable sales information to support the alternate land uses including both block sales and developed land sales if both a direct sales comparison and notional subdivision / residual value approaches are to be used;	Yes	DCF valuation only
(h)	Apply suitable adjusted market evidence to airport land as required and taking account of whether a direct sales comparison and notional subdivision / residual value approaches are to be used;	Yes	Lack of detail on DCF inputs and supporting transactional evidence
(i)	Reconcile the results of the valuation approaches used and determine a final value for the HBAU; and	Yes	
(j)	Prepare a valuation report, incorporating all disclosures required by the relevant valuation standards.	Yes	

14. Our review of the valuation steps and methodology adopted by Colliers when assessing the MVAU of the AIAL land as at 30 June 2011, indicates that the methodology adopted appears to meet the International Valuation Standards and Part 4 of the Commerce Act.

15. We do however note that the land use parameters and sell down period adopted by Colliers when undertaking the MVAU valuation appear to be aggressive, and as a result bring into question the reasonableness (in terms of being appropriately justified, legally permissible, and financially feasible), of the valuation. The valuation parameters are discussed in detail in the following sections.

3.0 MVAU VALUATION INPUTS – AIAL LAND HOLDING

16. Colliers state that all land use areas adopted in the valuation have been provided by AIAL. No Certificate of Title schedules or reconciliations of Certificates of Title by land use classifications have been provided by AIAL or Colliers.

17. In summary Colliers have assessed the total AIAL land holdings to be 1,552.7 hectares, the land to be included in the MVAU valuation to be 1,108.8 hectares, and the land within the Regulatory Asset Base (RAB) to be 716.1 hectares.

18. As part of this peer review we have attempted to reconcile the individual Certificates of Title, MVAU, and RAB areas with the Colliers data.

19. Our analysis indicates total AIAL land holdings of 1,551.8 hectares. This slightly differs from the Colliers data.

20. We note that the RAB includes the operational airfield land, plus land used for the fire service and non-contestable areas within the terminal. On the basis of the Colliers report, it is difficult to reconcile the MVAU and RAB land areas.

21. To provide greater clarity on the 2011 MVAU and RAB areas, we recommend that Colliers be requested to provide a detailed tabulated Certificate of Title area reconciliation. This area reconciliation should link and correspond with detailed land use maps of AIAL's MVAU and RAB, ie; Land holding by Certificate of Title and MVAU / RAB land use area apportionment.

22. We note that AIAL land holdings encompass approximately 1,552 hectares of land of which approximately 716 hectares is operational airfield, 392 hectares is held for future airfield development, 169 hectares has been developed and / or leased to third parties, and 275 hectares is vacant and held for future commercial development. Colliers have excluded all rented and leased and contestable vacant land assets from the MVAU / RAB valuation.

23. In principle we agree that the balance land does not form part of the specified airport land / RAB, however, as explained below, we consider there is a risk that excluding vacant investment land from the MVAU valuation, which would be developed for a similar use, may distort the supply and demand profiles of land in the RAB.

24. Decision 709 relates only to specified airport land therefore in practical terms the Colliers valuation appears to comply with the aggregation concept. However all parties need to make sure the sell down periods of comparable development land adopted in the hypothetical subdivision analysis are realistic, ie; Land holdings that are located on John Goulter Dr and Manu Tapu Dr are held for future commercial / industrial development and will compete with other AIAL land developed for development activities under the MVAU / RAB construct.

25. As discussed above it is important that the sell down periods of comparable development land under the MVAU and MVEU constructs are appropriate. Unfortunately Colliers have made no reference to the competing developments, therefore we are unable to comment on the aggregated supply and demand profiles of the MVAU / RAB land.

26. In summary based on the low level of land use and area information provided by Colliers and AIAL we are unable to confirm or reconcile the MVAU and RAB land areas. Further the information provided would not satisfy the requirements of:

- A prudent potential purchaser, or
- Airline customers in support or otherwise of proposed airport charges and understanding the performance of the Airport, or
- The Commerce Commission to use for the purposes of analysing airport performance as part of information disclosure regulation under Part 4 of the Commerce Act.

4.0 MVAU VALUATION INPUTS – HBAU MASTER PLAN

27. Colliers commissioned CG to develop an HBAU master plan identifying theoretical future land use options for the AIAL land holdings. In summary CG adopted an alternative use master plan that established a mixed use development with ten separate village centres, each with surrounding retail, business, medium and low density residential accommodation, plus reserves, parks, roading and utility land uses.

28. BARNZ have engaged independent planners ZPS and ME to review the CG alternative use master plan. We understand separate documents providing comments and optimal planning advice have been prepared by ZPS and ME and provided to the Commerce Commission already by BARNZ.

29. In summary we have been advised by ME that, when compared to the CG master plan, they believe the HBAU of the identified AIAL land would see a lower level of commercial development and increased medium and low density residential accommodation.

30. The respective CG and ME land use allocation areas and assessment of the HBAU of the AIAL land are scheduled in Table 2.

Table 2. HBAU Assessments – Land Use Allocation

Description	Area			Amount Of Activity			
	Commercial	Residential	Total	Commercial Floor Space (GFA m²)	Residential Dwellings	Population	Dwelling Density / ha
Common Ground Analysis							
Harbor Edge	3.7	180.8	184.5	25,831	3,616	9,041	20
Urban Village	1.5	71.8	73.3	10,262	1,796	4,490	25
Golf Village	4.2	24	28.2	29,631	360	900	15
Urban Centre	17.8	71.2	89.0	124,600	3,133	7,832	44
Marine Village	0.6	30.2	30.8	4,316	906	2,266	30
Waterfront Village	1.8	85.9	87.7	12,268	2,662	6,655	31
Puhinui Village	6	114.8	120.8	42,301	2,870	7,176	25
Wiroa Village	0.3	25	25.3	1,769	255	751	10
Eastern Centre Gateway	0.9	29.3	30.2	6,342	440	1,099	15
Productive Village	0.4	17.6	18.0	2,520	177	441	10
Sub-Total Precincts	37.2	650.6	687.8	259,840	16,215	40,651	25
Other Areas In AIAL Complex	37.0	0	37.0	259,000			
Open Space & Roading	0.0	0	152.7				
TOTAL AIAL	74.2	650.6	877.5	518,840	16,215	40,651	25
Market Economics Analysis							
Base Residential		650.6	650.6		16,215	40,538	25
Non-Centres Based Commercial	6.1		6.1	43,000			
Centres Based Commercial	13.4		13.4	94,000			
Other Commercial	18.0		18.0	126,000			
Residual Residential		36.6	36.6		913	2,282	25
Open Space & Roading	0.0	0	152.7				
TOTAL AIAL	37.6	687.2	877.5	263,000	17,128	42,820	25
Difference - Total AIAL	36.6	-36.6	0.0	255,840	-913	-2,169	0

31. From a practical perspective the key differences in the HBAU assessments relate to the amount of commercial space provided for under the MVAU scenario and resulting residual residential development.

32. CG expect that a large employment node would develop on AIAL land and that this would be supported by a large resident workforce.

33. ME in contrast believe that under the MVAU construct;

> *"..that the AIAL land does not have any particular locational advantages that would stimulate the development or maintenance of a large business area there, or that would make a very large AIAL town centre sustainable… [Further] there is currently no rail link [to airport complex and that]… the AIAL land is surrounded to the west and south by harbour, limiting the size of its natural catchment, the directions from which it can be accessed, and placing it away from major thoroughfares."*

34. ME also state that;

> *"... a large amount of low intensity business activity (such as warehousing, storage and freight forwarding) that currently exists near the Airport is unlikely to be sustainable in the absence of the Airport (under the MVAU construct), as those businesses have developed in that location specifically because the Airport is close by. If the Airport were to move, we would anticipate initially large numbers of vacancies of large floor-plate buildings, which would create significant spare capacity for business activity on AIAL land. We do not believe that it is appropriate to assume that the amount of economic activity in the areas around the Airport would remain in the Airport's absence, and consider that much of this activity should be removed from the 'baseline' of economic activity that will be present in the area in the future."*

35. Furthermore ME have advised us that they believe;

> *"A small proportion of existing businesses would remain if the Airport was relocated elsewhere, and that these businesses would form part of the total space able to be sustained locally by the MVAU population and worker base. Businesses such as supermarkets, cafes and restaurants and clothing stores that exist in the area now will continue to be viable if surrounding land uses change from Airport to residential, and would change their target customer base from tourists and employees of the industrial land (freight forwarding businesses etc.) to MVAU residents. ME however advise us that many of the businesses currently on the Airport would not fall into this category, and if remaining in situ would face significant costs by virtue of their distance from the new airport location, without any corresponding benefit (i.e. an adjacent residential population does not directly support a freight forwarding business)."*

36. In summary ME consider that the residential densities proposed by CG of 25 dwellings per hectare are fair and reasonable. On the base residential Precinct areas proposed by CG of 650.6 hectares, this infers a dwelling yield of 16,260 dwellings and a population of 40,650 people.

37. Taking into account locational constraints, ME believe that under the MVAU construct, a large business node on AIAL land is unlikely and that the maximum demand for sustainable commercial space (business, commercial, education, healthcare, retirement villages, paid accommodation etc), is a gross floor area of approximately 263,000m².

38. ME state that;

> *"This is significantly less than both the 518,841m² CG have presented in their MVAU assessment, and the 259,000m² that already exists in the area at present. This indicates that CG have overstated how much commercial land will be likely to locate on AIA land under a MVAU scenario by around 2 to 2.5 times. Further, a significant proportion of the 204,000 to 263,000m² we expect is not true commercial, as around one third is for education and there is further allowance for retirement villages (which are essentially a residential activity). Excluding these activities that are not truly commercial in nature means that the commercial space that is required is between 111,000 and 147,000m², or overstates actual commercial land requirements by 3.5 to 4.7 times.*
>
> *In summary, the CG development plan provides many times more space than we have assessed is sustainable based on the size of the population expected under the MVAU scenario, and the role we expect that the redeveloped AIA land would play within the Auckland economy.*
>
> *The balance of the 518,841m² commercial floor space (which would be 381,800m2) that CG have indicated would need to be occupied by businesses that are attracted into the area for other reasons, such as locational advantages, rather than being supported by local demand. This large amount of space would support a workforce of 6,000-10,000 MECs, which represents a very significant inflow of employment into an area which … would have limited locational advantages to cause such an attraction.*
>
> *This indicates that the balance between commercial and residential land provided in CG's MVAU assessment is not right, and that there should be more residential, and less commercial space."*

39. On the basis of ME calculations, the sustainable commercial land area at AIAL is approximately 37.6 hectares. This infers an additional 36.6 hectares of land would be available for residential development.

40. On the basis of a dwelling yield of 25 dwellings per hectare the total number of residential dwellings under the MVAU construct would increase to 17,128 and the population would be 42,820 people.

41. In summary we have been advised by ME and ZPS that they believe CG's HBAU master plan for identified AIAL land (a series of residential villages) is appropriate, other than that the alternative use master plan overstates how much commercial land will be likely to locate on AIAL land and does not contain any detail on:

- The current and projected catchment extent and market size,
- The current and projected population or employment projections, and
- Future demand profiles for the identified land uses.

42. In this regard we believe that a thorough evaluation of the prevailing market conditions, the current and projected catchment extent and market size, including population and employment projections, plus detailed supply and demand analysis, should have been carried out by CG and Colliers as part of the HBAU and MVAU analysis. The failure to undertake this work as a necessary first step in the preparation of the MVAU valuation has resulted in the over valuation of AIAL's RAB land holding.

5.0 MVAU – VALUATION METHODOLOGY

43. In calculating the MVAU of the AIAL land, Colliers note that:

"Ordinarily there would be a preference to assess the value of the land with regard to sales of equivalent assets observed within the market place. However for a number of reasons this is not practical. Firstly the scale of the holding at approximately 1,109 hectares of developable area is without precedence in terms of a single transaction, or even a small number of transactions in aggregate. Secondly the strategic nature of the land and its scale makes direct comparison virtually impossible on account of the diversity of land use types, and features and its potential influence or dominance of the Auckland market.

Therefore we have primarily utilised a Discounted Cash Flow (DCF) methodology.

… The valuation methodology has been undertaken in four steps;

- *We have assessed the market value of the Puhinui Village precinct…*
- *We have then used the derived rate per hectare and per household unit of the Puhinui Village as the base line for the wider holding applying the rate to the subsequent precincts of the development making appropriate adjustments for such factors as location, density and yield, and making a market deferment of the value for each precinct relative to projected absorption rates and market demand. This produces a notional value of the entire holding under the assumption it could be realised at a single point in time; 30 June 2011.*
- *Given such an assumption is unrealistic we have deferred the various stages of the development … over a 17 year development and sell down period….*
- *Finally we have cross checked our conclusions against expected values for large holdings on a per hectare basis"*

44. On review of the methodology we note the following points:

- In accordance with standard valuation practice we agree that it is preferable to assess the value of the identified assets on the basis of comparable sales.
- Unfortunately however due to the scale, location and strategic nature of the proposed AIAL MVAU development, there is a paucity of comparable block sales evidence from which to accurately assess its value.
- We therefore agree that the hypothetical subdivision analysis and discounted cash flow valuation approach should be the primary method to assess the MVAU value of the AIAL land.

- The discounted cash flow approach simulates the subdivision and on-sale of land, taking into account all costs associated with the development and sale of lots, including a return to the purchaser for risk and other holding costs. The net present value of the free cash flows represents the price that a prudent purchaser would be prepared to pay for the subject land in its present state (block value).
- All inputs / variables for the hypothetical subdivision analysis and discounted cash flow valuation must be based on market evidence.
- Due to the size and scale of the AIAL MVAU development we believe it is fair and reasonable to assess the base value for a sample precinct within the overall development, and then, subject to deferment allowances and any other site specific adjustments required, apply these base value benchmarks to the balance land.
- In assessing the deferment allowances it is important that the valuation complies with the aggregation concept, whereby the HBAU and sell down periods explicitly take into account demand from competing developments of other land owned by AIAL.

45. In summary the valuation methodology adopted by Colliers seems fair and reasonable, and appears to meet the International Valuation Standards.
46. However the development inputs in the HBAU assessment appear aggressive, and as a result we believe that the Colliers MVAU valuation in terms of Section A10 of Decision 709, is over stated and it is questionable as to whether or not it is appropriately justifiable, legally permissible, and financially feasible.

6.0 MVAU – DCF HYPOTHETICAL SUBDIVISION – PUHINUI VILLAGE

47. In the discounted cash flow / DCF hypothetical subdivision model Colliers have simulated the subdivision and on-sale of land. This analysis explicitly takes into account the timing of all costs associated with the development and sale of lots, including a return to the purchaser for risk and other holding costs. The net present value of the free cash flows represents the price that a prudent purchaser would be prepared to pay for the land in its current state (HBAU block value).

48. Our review of Colliers key valuation inputs follows.

6.1 GROSS REALISATIONS

49. The land use allocation and residential densities adopted by Colliers in the hypothetical subdivision are primarily based on the CG master plan.

50. The development mix and gross realizations adopted by Colliers to calculate the base benchmark land values (within the Puhinui Village) are detailed in Table 5.

Table 5. HBAU Assessment – Colliers - Puhinui Gross Realisations (inc GST)

Land Use Allocation	**Area Ha**	**Lots**	**Rate $** Inc GSt
Detached	34.44	861 Lots	265,000
Urban House	34.44	861 Lots	215,000
Semi Detached	28.72	718 Lots	185,000
Terraced	13.76	344 Lots	165,000
Apartments	3.44	86 lots	75,000
Commercial	6.00	42,301m²	300/m² + GST
Totals	120.8		

51. Colliers state that the gross realisations adopted in the Puhinui Village valuations are based on analysis of recent sales within the wider Auckland region, and particularly in localities which have been recently developed. These include Stonefields, Long Bay, Millwater in Silverdale, Pokeno, and Karaka Lakes.

52. Colliers have not scheduled any of the comparable allotment sales in their report and as a result this component of the valuation does not comply with the Valuation Standards.

53. However, on the basis of our review of historical transactional / sales evidence and existing allotment and housing stocks in south Auckland, we believe that the average gross realisations adopted by Colliers are fair.

6.2 Costs Of Sale

54. Colliers have calculated the costs of sale as follows:

- Marketing expenses – 1.0% of the net realizations,
- Sales commissions - 1.5% of the net realization,
- Legal expenses - $1,000 per residential site, and
- Commercial legal expenses - $50,000.

55. We believe the adopted costs of sale are fair and reasonable.

6.3 Development Expenses

56. Colliers have assessed the base construction costs for Puhinui Village to be approximately $120m. This equates to a per dwelling rate of $41,051 plus GST and a rate per square metre over the commercial land of $50.

57. In addition to the base construction costs estimate Colliers have made allowances for the following costs:

- Development Contributions $28,700,000,
- Statutory Holding Costs $ 4,500,000,
- Contingency $12,083,650, and
- Financing Charges $33,127,033.

58. We note that the Colliers valuation has no commentary on the timing and costs associated with obtaining the necessary planning approvals and consents required to undertake the proposed Puhinui Village development, let alone the overall HBAU development.

59. We have been advised by ZPS that it would take between 1.5 to 2 years to obtain the necessary planning approvals to undertake the HBAU development. Further once the planning approvals have been obtained it would take approximately 1 year for detailed design and construction to commence.

60. We note that our review of the Colliers valuation identified a discrepancy between the report and model in the development costs that were applied to the commercial land. The actual cost adopted was $71.43/m² and differs from the stated report cost of $50/m².

61. Overall we believe the base construction costs adopted by Colliers fall within current industry benchmark ranges and that they are fair and reasonable. If BARNZ were to undertake a full MVAU valuation of AIAL's land holdings, we recommend that BARNZ engage an independent quantity surveyor to calculate the appropriate construction costs and development expenses.

6.4 *PROFIT & RISK ALLOWANCE*

62. Colliers have adopted a pre-tax nominal discount rate of 25%.

63. We agree with Colliers that due to the unique nature and scale of the proposed AIAL HBAU development that there is little transactional evidence from which direct comparisons can be made.

64. Our analysis of smaller urban development land transactions indicates that the required returns / Internal Rate of Return allowances range from 10% to 40%. This has increased in recent years as the global financial crisis has put pressure on property values, reduced funding liquidity, and depressed expectations surrounding future growth.

65. On the basis of discussions with major property developers and analysis of urban development land transactions, we believe the pre-tax nominal discount rate should be between 25% and 30%.

6.5 *INFLATION ADJUSTMENTS*

66. As noted above Colliers have adopted a nominal discount rate. Inflation adjustments have been therefore been explicitly incorporated into the DCF.

- Cost escalation – 5% in year one then 3% thereafter.
- Residential land appreciation – compound 2.7%
- Commercial land appreciation - compound 2.33%.

67. We believe the adopted inflation adjustments are fair and reasonable.

6.6 *FINANCE CHARGES*

68. Colliers have made an allowance for financing charges in their DCF analysis.

69. The calculations for this charge are not detailed in the Colliers report, however they sum to be $33,127,033.

70. We have queried the rationale and mathematics of the finance charge with Colliers, however as of preparing this review have not had a reply from Colliers.

6.7 *OTHER CHARGES*

71. No detail was provided in the Colliers report to support the calculation for development contributions ($28.7m), or the Statutory Holding Costs ($4.5m).

6.8 DEVELOPMENT HORIZON

72. In summary Colliers plan to obtain planning approval for the Puhinui Village development and for construction to occur in 12 months, and then to sell the entire development (being 2,870 allotments and approximately $622m in sales), within 8 years.

73. In isolation Colliers propose that 359 residential lots within the Puhinui Village will be sold during an 8 year sell down period. By itself this may be reasonable, however once the development timeframe incorporating the other nine residential precincts are considered (16,215 +residential lots), the market share represents (1,200 + lots in 2023 and 2024), 56% of all new dwelling created in South Auckland, 23% of Manukau, and 14% of all regional growth.

74. Colliers have adopted a 17 year development horizon for the HBAU development of AIAL land.

75. To determine if the overall development horizon is realistic we have liaised with ME and local valuers and developers. In this regard ME have undertaken a case study of comparable developments in greater Auckland.

76. As part of this case study ME note that:

> *"Stonefields is a good comparable example, being located on a large greenfields site (the former Mt Wellington Quarry) within urban Auckland. The main body of the Stonefields development was available for building around 2008, and development is expected to continue through to at least 2015. 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* [the AIAL HBAU land] … *may sell. This (at least) eight year timeframe equates to just over 300 dwellings per year, on average, over the whole time (see Table 6)."*

Table 6: AIA MVAU Take-Up Compared to Stonefields

	Stonefields	AIA MVAU
Start Year	2008	2012
Finish Year	2015	2028
Elapsed Years	8	17
Dwellings	2,500	16,260
Dwellings/year	313	956
Auckland Region Households		
Start Year	475,000	514,100
Finish Year	555,100	691,400
Growth	80,100	177,300
Market Share	3.1%	9.2%

77. ME note that:

"In 2007 there were about 475,000 households in the Auckland Region, and this is projected to grow to around 555,000 by 2015, an increase of 80,100 households. Stonefields' share of this total regional household growth over the course of its development is therefore expected to average about 3.1%, although will be lower if the sell-down period lasts longer than 8 years. By comparison the 17 year AIA sell-down period is twice as long as the Stonefields' expected sell-down period, although will create 6.5 times as many dwellings. This translates into a much higher market share (averaged over the whole sell-down period) for AIA MVAU land compared to Stonefields, so that whereas Stonefields' share of all regional dwellings will be 3.1%, the AIA MVAU would average 9.2% over its 17 year development lifetime.

In this context the uptake of AIA MVAU dwellings applied by Colliers, and the implicit market shares are quite high, especially given they must be sustained for twice as long as Stonefields is expected to take to sell-down and the market shares will peak at over 11% for years at a time."

78. On the basis of advice from ZPS and ME, plus local commercial and residential valuers and real estate agents, we believe there would be opposition to the proposed scale of development. Notwithstanding our assessment of the HBAU master plan, this would result in significant consenting and timing delays, which together with a more realistic sell down period of say 5% - 6% of market share annually, would push the development horizon out towards 25 + years.

6.9 Summary

79. On review, the base DCF hypothetical subdivision model for Puhinui Village adopted by Colliers appears to be accurate and working within the bounds of the stated valuation inputs. However, we have serious questions about the reasonableness of some of the inputs, particularly the demand for additional commercial land under the MVAU construct, the residential land use mix, plus the sell-down period.

80. Colliers base Puhinui Village valuation is summarised in Table 7.

Table 7 – Puhinui Village – Colliers Valuation Apportionment

Description	Detached	Urban House	Semi Detached	Terraced	Apartments	Commercial m²	Total
Allotments	861	861	718	344	86	42,301	
Base Values $/Lot	59,463	48,244	41,512	37,024	16,829	77	48,645
MV Estimate	51,197,934	41,537,947	29,805,718	12,736,374	1,447,315	3,274,712	140,000,000

7.0 SUMMARY DCF

81. Colliers have applied the base DCF values from the Puhinui Village valuation to the other nine AIAL village precincts.

82. Subject to the limitations detailed above with regards to the residential and commercial development mix and development horizons / sell down period etc, the Colliers DCF valuation of $533,300,000 appears to be accurate and working within the bounds of the stated valuation inputs.

83. As a cross check to the DCF valuation, Colliers state in their report that they have considered an alternative scenario of selling the AIAL land for notional rural or lifestyle activities. On this basis they have concluded a value of $497,000 per hectare.

84. Unfortunately no details are included in the Colliers report as to how the cross check rural or lifestyle values are calculated, therefore we cannot comment or critique further.

85. On page 33 of the Colliers valuation report the aggregated value of AIAL's MVAU of $533,300,000 is apportioned. A summary of this apportionment is scheduled in Table 8 below.

Table 8; Colliers – MVAU Apportionment

Description	RAB			Future Development			Total		
	$	ha	$/ha	$	ha	$/ha	$	ha	$/ha
Precinct Land	357,550,000	345.4	1,035,177	175,750,000	342.5	513,139	533,300,000	687.9	775,258
Open Space	0	95.8	0	0	50.2	0	0	146.0	0
Coastal Margin	0	6.6	0	0	0.0	0	0	6.6	0
Seabed	0	229.9	0	0	0.0	0	0	229.9	0
Balance Commercial Land	29,750,000	38.4	774,740	0	0.0	0	29,750,000	38.4	774,740
Total	387,300,000	716.1	540,846	175,750,000	392.7	447,543	563,050,000	1,108.8	507,801

86. Unfortunately the allocation mechanism of the MVAU valuation is not scheduled. To provide clarity as to how the value of the RAB and Future Development land is determined, we recommend that Colliers be requested to provide a tabulated reconciliation.

8.0 MVAU SUMMARY

87. In accordance with your instructions we have completed a peer review of the Colliers land valuation report that was disclosed by AIAL in its regulatory reporting requirements under the Commerce Act.

88. As part of this review we confirm that 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.

89. On the basis of planning advice received from ZPS, economic analysis of the supply of and demand for various land uses by ME and our review of market conditions, we believe that the HBAU master plan promoted by Colliers 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.

90. As a result of these factors we believe 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.

91. As requested we have not undertaken a formal MVAU valuation of AIAL land, however 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%.

92. In relation to this peer review we note that specific comments on the appropriateness or otherwise of the CG master plan and its consent-ability have already been independently addressed by ME and ZPS. Secondly, we recommend that if BARNZ wishes to commission a detailed MVAU valuation of AIAL land then independent comment on the appropriate development costs and construction timeframes will be required.

93. I trust this letter identifies and clarifies the key valuation issues and drivers that influence the MVAU of AIAL land. If you have any queries regarding the information discussed in this letter please do not hesitate to contact me.

Yours faithfully

Property Advisory Ltd

KD Smith

B.Com VPM, MNZPI

Registered Valuer

Director