



Review

Review of Land Valuation Methodology Wellington International Airport Limited

Client:

Commerce Commission
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Attention: Anna McKinlay

Date of Valuation:

12 November 2012

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1.0 Executive summary

In our opinion, the valuation has not been prepared in accordance with Schedule A of the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010; and the following report sets out the reasons why we consider the Schedule A methodology has been incorrectly applied.

1.1 Areas of Valuation Report Non-compliance

- 1.1.1 There was no investigation into nor searching of titles to ensure ownership, tenure and any encumbrances recorded against title. See Schedule A, Clause A10 (b).
- 1.1.2 There appears to be no consideration given to the costs of any zoning changes. See Schedule A, Clause A10 (c).
- 1.1.3 There is insufficient information in the report to confirm that the proposed development is physically possible, appropriately justified, legally permissible and financially feasible. See Schedule A, Clause A 10 (d).
- 1.1.4 There is insufficient information in the report to explain rationale for large areas of intensive residential and commercial development. See Schedule A, Clause A 10 (f)(i).
- 1.1.5 The assessment of market demand is not supported by the research shown in the report. See Schedule A, Clause A 10 (f)(ii).
- 1.1.6 Direct development cost estimates were assessed in 2011 and not adjusted for the 2009 valuation date. See Schedule A, Clause A 10 (f)(iii).

1.2 Incorrect Treatment of Land Conversion Costs

The following land conversion costs are assumed to have been incorrectly included in the land valuation:

- 1.2.1 Earthworks relating to the development of a stable and level runway platform and the southern sea protection works/sea wall.
- 1.2.2 From the information provided it is not possible to attribute any value to those land conversion costs; nor
- 1.2.3 From the information provided it is not possible to provide any dates (with respect to those land conversion costs) in terms of when construction commenced, and the asset was commissioned.

2.0 Scope

We have been requested to review the 2009 land valuation report disclosed by Wellington International Airport Limited (WIAL), to determine whether the valuation has been prepared in accordance with the land valuation methodology set out in Schedule A. This review is limited to being a review solely of whether the valuation report has correctly applied the methodology. The review does not include a peer review of the actual values.

This review also includes an assessment of whether the land valuations disclosed by WIAL, include land conversion costs as defined in Part 1, clause 1.4 of the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010, namely:

Land conversion costs means:

costs incurred in:

- (i) the holding and levelling of land;
- (ii) seawall reclamation;
- (iii) sea protection; or
- (iv) seawall construction; or

any other costs incurred relating to the conversion of land for use in the supply of specified airport services. The valuation must exclude the value of conversion costs to the extent that they are required specifically to convert the land into that suitable for the supply of airport services (clause A9(11) of Schedule A). In addition, real property to the extent that it is attributable to land conversion costs is not 'land' for the purposes of the Input Methodologies and cannot be revalued as assets under Schedule A (see the definition of 'non-land asset' in clause 1.4(2) and clause 3. 7 of the Commerce Act (Specified Airport Services Input Methodologies) Determination 2010).

The report under review is titled MVAU Land Valuation, Wellington International Airport Limited, with an effective date of 31 March 2009 and as an issue date of 29 November 2011. The report was prepared by TelferYoung (Canterbury) Ltd., Valuers and Property Advisors. We refer to this valuation report as the report throughout this review document.

3.0 Compliance with the Requirements of Section A10 of Schedule A

3.1 Identify Land to be Valued

Pages 9 & 10 of the report, list the street addresses and title references for all land parcels owned by WIAL as required by Schedule A. The land appears to have been valued as aggregated and as notionally vacant.

Complies.

3.2 Confirm Land Ownership, Tenure and Areas

TelferYoung were provided with a summary of title information by the management of WIAL. This summary information contains a brief street address, the title reference and the land area. We note the total land holding is 110.8927 hectares, which we also note is slightly different to that identified in the 2011 report. It appears as though TelferYoung has relied upon this information and have not searched the individual titles to confirm ownership, tenure and land area.

Apparently, a number of the titles contain Memorials of Encumbrances however as these have not been searched it is not known whether these may have any detrimental impact on value or not. To comply with Schedule A, an investigation into these encumbrances (and any other matters recorded on title) should be made to ensure that there are no land use limitations and that no deduction from the market value of the land is required. There has been no search of any Land Information Memorandums (LIM's).

Does not comply.

3.3 Zoning

Pages 12 to 14 of the report identifies the existing zoning for the various airport land parcels. We note that the operative scheme for Wellington City in addition to the predominant airport zone allows for activities ancillary to that function and contains provisions to manage non-airport activities and development.

Page 16 discusses the likely use and zoning for the land in its highest and best alternative use and some nine land uses/zones have been established (excluding roading). However, there is no discussion around the likelihood of a zoning change or the costs that may be required in this regard.

Does not comply.

3.4 Determine Highest and Best Alternative Use

To assist with this part of the valuation process, TelferYoung commissioned Boffa Miskell Limited (an environmental planning and design consultancy providing landscape architecture, planning, urban design, ecology and cultural heritage services) to develop a master plan identifying likely future land use options for the WIAL land holding. The final plan identifies a range of likely uses including residential, business park, retail and a new town centre.

The report mentions that these uses must be physically possible, appropriately justified, legally permissible and financially feasible. Unfortunately this has not been expanded on in the report, and I do wonder whether all proposed uses would be readily permitted. I believe this issue needs to be addressed further, perhaps by way of discussion with Wellington City Council planning and legal personnel to get clarification that the proposed uses and land areas for this hypothetical development are realistic and feasible.

It is noted that the same Boffa Miskell master plan was used for both the 2009 and 2011 land valuations. TelferYoung have obviously assumed that there were no changes to market demands, zoning or any other matters that may have necessitated plan changes.

Does not comply.

3.5 Resource Management Considerations

While the plan is high level, Boffa Miskell have given due consideration to various operative plans including the Ngauranga to Wellington Airport Corridor Plan and to a discussion document titled How and Where Will Wellington Grow?

As such, the preferred development plan appears to have considered surrounding uses, existing services and residential growth requirements in the area, although there does not appear to have been any discussion with Wellington City Council to confirm any additional requirements. Notwithstanding compliance, I believe further investigation should be undertaken.

Complies

3.6 Subdivision Considerations – Land Development Plan

A preferred land development plan was identified by Boffa Miskell, and we understand that this was agreed as the final plan after work shopping options with the valuers and WIAL. The plan is supposedly to be reviewed after receiving responses from the airlines and their expert advisers.

While the plan considered development options including declamation of the south coast back to the original bay coastline, the preferred option (Option 2 in the Boffa Miskell document attached to the report) designs the development within the existing line of reclamation.

The uses identified include: a town centre, business park, large format retail, perimeter block apartments, retirement housing, 3-4 storey apartments, townhouses, detached family housing, a headland park, neighbourhood open space and roads. After removing existing developed areas comprising the airport retail park, residential areas to east and west and investment land to the north and south the total land area available for the assessment of the MVAU is 102.53 hectares – an area slightly less than that used in the 2011 valuation.

While the MVAU is a hypothetical exercise, it would appear that some of the land uses proposed by Boffa Miskell are reasonable given the location and nature of the land holding, however I have concern over the number of hectares proposed for uses such as the town centre and business park and do wonder whether these areas are greater than required in this locality. Would a town centre of this size even be permitted given the other competing centres (such as the Kilbirnie town centre) nearby?

However the proposed large format retail precinct does build on the already existing retail/service development that exists close to Lyall Bay and this would appear to be a natural and reasonable use. Lastly I note that a far greater area has been set aside for intensive apartment and townhouse development than for detached family housing. While the report comments on there being an increasing demand for high density dwellings, it states that this is only a steadily increasing demand and to me suggests that perhaps there should have been greater area set aside for detached family housing. In addition, there has been very little mention of the reserve requirements for the development and I doubt that these are sufficient.

The plan was one of four plans initially prepared – with Plan 2 being preferred by TelferYoung and WIAL and then subsequently further refined. So while a plan was prepared, I have concerns whether the areas and uses selected are realistic. Further external consultation and possible refinement is in my view required.

Does not comply.

3.7 Determine Market Demand

Pages 21 through 24 of the report establishes that analysis has been undertaken within the Wellington market to establish the supply and demand and potential market absorption for all the uses identified in the master plan.

Absorption of all lots has been considered over a seven year period and Appendix 2 to the report shows TelferYoung's estimate of the absorption by use, on a land area basis over those seven years. As mentioned previously, there could be resistance to granting development approvals especially for a new town centre. I have real doubt that seven years is sufficient for development and realisation of the land use plan given the time that will likely be required to receive all necessary consents and approvals. It is more likely that a development period of at least 10 years (and possibly longer) may be required.

Of real concern is the statement that over a 10 year period, sales of vacant sections in the Wellington region averaged approximately 400 sections per annum. This contradicts TelferYoung's own evidence – where they identify an average of 244 sections per annum over the two years prior to the date of valuation. As such their absorption estimates would appear inaccurate.

Does not comply.

3.8 Determine Development Direct Costs

TelferYoung commissioned Opus International Consultants to provide direct cost estimates of the proposed subdivision. Opus is a multinational and multidisciplinary engineering/professional services consultancy. Based on the development plan, Opus has identified costs for the physical construction, preliminary and general costs, a contractors/developers margin, resource consent costs, development levies, survey and title issue, professional fees and has also made an allowance for contingencies. The physical construction costs include costs for earthworks, roads, water/stormwater/sewer, and telecom/gas/power.

We note the costs used were developed by Opus for the 2011 valuation. We believe these should be reassessed for 2009.

Does not comply.

3.9 Determine Development Indirect Costs

TelferYoung in their hypothetical subdivision calculation have allowed for indirect costs such as real estate commissions on the sales of sections, legal fees, development levies, marketing, developer's holding costs, management and local authority rates.

Complies.

3.10 Undertake Market Research

Pages 23 to 25 of the report with associated appendices 3, 4 and 5 provide a summary of the findings from TelferYoung's market research. It appears as though their sales research has included sales across the Wellington region (as would be expected to ensure sufficient sales are obtained for analysis) and we note that when researching sales for the zonal approach, TelferYoung have had to extend their sales research throughout New Zealand due to the paucity of sales of larger land holdings. There is no indication as to whether any of the sales obtained were influenced by the existing airport and we assume given the locations of the sales that this is not the case.

Complies.

3.11 Application of Market Evidence

Three accepted valuation approaches have been used by TelferYoung. They include a block/zonal approach, a traditional hypothetical subdivision approach and a hypothetical subdivision using a DCF approach. The gross realisation estimates have been based on analysed market evidence, and adjusted as required to reflect the location, scale and linkages with surrounding development.

The application of each of these three methods appears satisfactory although it would be useful to see how the sales evidence was analysed. The approaches used support usual valuation practice and the valuation standards.

Complies.

3.12 Reconciliation of Approaches

Reconciliation of the values arrived at by the three valuation approaches has apparently been made, although the report does not detail TelferYoung's

rationale in this regard. We note that the final figure is close to being the average of the three approaches.

Complies.

3.13 Preparation of Valuation Report

A relatively full and complete valuation report was prepared incorporating all disclosures as required by the relevant valuation standards.

Complies.

3.14 Other Considerations

3.14.1 The proposed MVAU development plan includes land that was reclaimed at both the northern and southern end of the runway. In as far as this land has been valued at market rates rather than at cost, this appears to be acceptable under Schedule A.

3.14.2 The value of the land assessed for the MVAU, must incorporate some value attributable to the formation of the level airport platform. It is not possible from the information provided to determine what effect this has on value.

3.14.3 The southern end of the site has a substantial sea wall. The value of this sea wall/protection is included in the value of the land and has not been valued separately. A coastal/civil engineer would be required to advise whether this coastal protection was necessary for the alternative use.

3.14.4 The valuation does not make any deduction or allowance for any remediation costs as required under Schedule A.

3.14.5 We note that the valuation must include all land used to provide specified airport services held by the airport: Under the IM airports are allowed to recognise a revaluation of land (only) when all airport land held is simultaneously revalued. This includes land currently used to provide specified airport services, and any future development land. Of the total land holding of 110.89 hectares (we note this is a lesser area than that noted in the 2011 valuation), only 102.53 hectares is valued with the missing land parcels identified as the Moa Point Reserve, the Airport Retail Park, Residential East and West and the Investment land North and South.

4.0 Conclusions

Generally, the requirements of Schedule A appear to have been followed however, there are several areas where further and 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.

Finally it appears as though the land values include allowances for the cost of the airport runway formation and sea protection which are considered to be airport conversion costs (unless in the case of the sea protection, this is required for the MVAU).