Report

Review of Land Valuation Methodology

Wellington International Airport Limited

Client:
Commerce Commission
Level 9, 44 The Terrace
PO Box 2351
Wellington 6140

Attention: Anna McKinlay

Final Report:
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Darroch Limited
Level 16, Auckland Club Tower
34 Shortland Street, Auckland 1010
PO Box 3490 Shortland St, Auckland 1140 New Zealand
Tel: +64 (0)9 309 3040
Fax: +64 (0)9 309 9020

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Darroch Limited – Licensed Real Estate Agent (REAA 2008)

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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 appears to be no consideration given to the costs of any zoning changes. See Schedule A, Clause A10 (c).

1.1.2 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).

1.1.3 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).

1.2 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 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 2011 and as an issue date of 17 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.

In December 2012, we were provided with additional documentation, namely, a WIAL letter to the Commission re the Darroch MVAU valuation review, the TY review of land valuation methodology and response to Darroch and additional WIAL Consultation Documents. Any changes to this report reflects the additional information provided in those documents.

3.0 Compliance with the Requirements of Section A10 of Schedule A

3.1 Identify Land to be Valued

Page 10 of the report, lists the street address and title reference 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 111.6065 hectares. TelferYoung have previously searched these titles.

Complies.

3.3 Zoning

Page 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 17 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.

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. Not withstanding 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.
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 103.20 hectares.

While the MVAU is a hypothetical exercise, it would appear that the 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. While the seven year absorption period seems to be a reasonable estimate based on the content of the report, 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.

Complies.

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.

Complies.

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 26 to 29 of the report with associated appendices 3 and 4 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 and supports 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 112.95 hectares, 111.60 hectares comprise freehold land and 1.35 hectares consist of 4 leasehold parcels. Telfer Young refer to the freehold land only, as forming the total land holding therefore an area of 111.60 hectares.

We note that the valuation has not included all of that freehold total area however. The valuation has excluded land described as the airport retail park, residential land to east and west, investment land to the north and south and the Moa Point land. While the bulk of the land is one contiguous holding there are a number of commercial and residential sites separated from the main holding. From the information contained in the report, it appears as though the residential parcels – all those fronting Bridge Street, Broadway, Coutts Street and Miro Street having a total area of 2.75 hectares have been excluded from the MVAU and instead valued in their highest and best use with a total land value of $8,595,000 – although this has not been added to the MVAU land figure in the land report. This still leaves some 5.65 hectares not included in the MVAU valuation and it is not possible from the information provided to determine which parcels they comprise nor any value attributed to them.

3.14.6 I have been asked to also make specific comment on the following points:

Question. What is the value of the 86.3 Ha of land that is used for specified airport services (direct and shared land)?

Answer. As it is not possible to determine just which land parcels or location of the parcels make up the 86.3 Ha relative to the total 103.2 Ha valued then I cannot provide any definitive answer. However on a straight percentage basis disregarding any matters such as contour, use, location then the figure on a per hectare basis would be approximately $117.9m.

Question. Do any of the land conversion costs relate to shared land, or are these costs only related to land used solely to provide specified airport services?

Answer. Again without information to show accurately what or where the shared land is, an answer is difficult. I assume however that roading forms some (or possibly all) of the shared land. If this is the case and the roading in question is largely on the perimeter of the airport then I expect little if any land conversion costs would be included. Conversely if this is land on the runway and taxiway platform then conversion costs would be expected to be included.

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. There was no 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).