Boffa Miskell
Memorandum

☑ Auckland Fax: 64 9 359 5300
P O Box 91250
Level 3, IBM Centre
82 Wyndham Street
Tel: 64 9 358 2526

☐ Tauranga Fax: 64 7 571 3333
P O Box 13373
Level 2, 116 on Cameron
Cnr Cameron Road & Wharf Street
Tel: 64 7 571 5511

☑ Wellington Fax: 64 4 384 3089
P O Box 11340
Level 9, Hewlett Packard Building
186-190 Willis Street
Tel: 64 4 385 9315

☐ Christchurch Fax: 64 3 365 7539
P O Box 110
Level 6, Brannigans Building
86 Gloucester Street
Tel: 64 3 366 8891

Attention:	Martin Harrington
Company:	WIAL
Date:	01 August 2011
From:	Marc Baily / Stuart Houghton
Message Ref:	Response to Zomac Planning Memorandum
Project No:	W11006

Martin,

We write to provide the following commentary in response to comments on the alternative land use plan by Zomac Planning Solutions in a memo dated 07 July 2011:

1) With regard to the rationale for the proposed town centre; its hierarchy and location derives from the intention of the Wellington City Council 50 Year Growth Concept that indicates a growth spine and high quality transport spine between Johnsonville and the southern area of Wellington. The end ‘node’ of the that spine is currently proposed to be Kilbirnie and a revitalisation plan for Kilbirnie is proposed that aims to significantly increase the density and development here to provide a choice of living environment for residents of Wellington. In developing alternative land use scenarios for the airport land, we have suggested that a new town centre centrally located within the (ex) airport land is a more logical spine end than at Kilbirnie given:

   - the confluence of transport routes through to the eastern suburbs of Seatoun, Miramar, Strathmore and the bay settlements as well as the future redevelopment area at Miramar Peninsula
   - the significantly easier development potential for alternative densities and living environment given its vacancy
   - the opportunities presented by the proximity at the north and south end to the coast, its beaches, areas at the Miramar peninsula, and other amenities such as the golf course

   For these reasons we would regard the new centre as having primacy over both the existing Kilbirnie centre and the small Miramar centre. Kilbirnie would consolidate within its current area.

   The new centre would provide amenities, civic and retail and other commercial and health services to the southern suburbs catchment which is extensive from this point.

   We do not agree that a centre of this size and mix would impact upon the Golden Mile or the general retail of the wider city given that it will take the role of Kilbirnie’s proposed growth and will be a southern suburbs catchment provider, albeit attracting some custom from visitors to this part of the city to beaches, peninsula and other work centres locally (such as the film industry). Given this strong correlation with the

Council's long term growth concept we believe the rationale for this centre is strong, falling within the definitions of legally permissible being achievable with appropriate rezoning via a plan change to the District Plan.

2) In developing the highest and best alternative land use for the land we have envisaged the town centre area providing for a mix of activities such as a new supermarket (such as the 1.2 hectare Kilbirnie Pak n Save) a small local cinema such as that at other suburbs of Wellington (but not Kilbirnie), healthcare centre (given an aging population profile), a service station, smaller shops fronting Coutts Street Extension as well as allocation for a public square fronted by hospitality/food and beverage offerings. Surface car parking would be most likely and this would be provided at the rear of the buildings with the access from the back of the blocks. There would be some potential (and benefit) for a mixed use and residential or office above shops arrangement, although the proposed densities have not been calculated on this basis.

3) With regard to large format retail, we note that part of the area described by the plan is already occupied by LFR offering (3.3ha). We would envisage ready interest by the likes of a Mitre 10 Mega or similar, a garden centre, plus possibly relocated bus terminus/depot at the end of the spine. Hardware and garden centres are very compatible with new growth areas such as that proposed. The additional 7ha provided for in the Master Plan is not materially inconsistent with Zomac's proposal that an additional 5ha be provided and consequently we remain of the view that the total area for LFR is appropriate.

4) With regards to the business park area we have given consideration to the extent of this and have proposed a change to the master plan to provide some flexibility in the utilisation of this area by a combination of residential and business/education type campus style development as previously proposed. This has resulted in the proposed land area for a business park being reduced from 22.5ha to 13.7ha. We are of the opinion that the idea of campus style business/educational development would have a useful place within the city and is an opportunity currently not provided for. The concept of providing for employment in local centres of the type proposed on the airport land is recognised as having significant benefits to the community and the diversity of business environment offering within the wider region. The provision of a lesser business area and the replacement of part of this with residential uses respond to the objective of increasing the market offerings with in this case a proximity to the golf course which broadens the base of residential options. This provides within the master plan a choice of densities and locations that include town house, single units, and apartments with proximity to the town centre, the coast or the golf course. As a result the master plan has been updated and revised plan provided to Telfer Young for inclusion in its documentation.

5) With regards to open space allocation we have only shown open space where it is an essential part of the urban block structure; further open spaces be provided as part of the development of the blocks over time and this is factored into the allowance for yield. We note that the total provision for open space and the headland park is 11% of the development land, excluding roading, which meets the Zomac proposal of 10% for open land.

6) We have been cognisant of the climatic conditions in preparing the alternative land use plan. Breaking up the north-south wind funnel effect of the current airport development has been a key driver in the fragmented grid block structure that aims to minimise the length of streets of a north-south orientation while still taking into account good solar orientation of blocks. It has also influenced the building typologies adopted in particular the perimeter block typology that would provide more

sheltered central courtyards within residential apartment and/or retirement village developments.

Conclusion

Boffa Miskell has made amendments to the Master Plan following consideration of the comments outlined in the Zomac memo. An amended plan dated August 2011 has been issued to Telfer Young and Wellington Airport. Boffa Miskell considers that this plan meets the Commerce Commission valuation requirements and is physically possible, appropriately justified and would be legally permissible (in that it is considered consistent with the intent of the Wellington City Council Urban Development Strategy and the reasonable consequent zoning mix of the land if the airport was not in situ).

Boffa Miskell
www.boffamiskell.co.nz

WELLINGTON AIRPORT MASTERPLANNING ALTERNATIVE LAND USE OPTIONS

Prepared for Telfer Young (Canterbury) Limited

For Land Valuation Purposes Only

By Boffa Miskell Limited August 2011

Aerial photograph of the current Wellington International Airport

Boffa Miskell
www.boffamiskell.co.nz

Introduction

Boffa Miskell were engaged by Telfer Young (Canterbury) Limited (TY) to prepare a masterplan for the airport area, following the release of the Commerce Act (Specified Airport Services Input Methodologies) Determination on 22 December 2010 ('the determination'). The masterplan is intended to describe alternative uses for the airport area assuming the airport was not on the site.

The purpose of the masterplan is to assist with the process of establishing a "Highest and Best Alternative Landuse", and follows the process set out in Schedule A of the determination for establishing the alternative use component of the Maximum Value Alternative Use (MVAU).

The process of preparing the masterplan was to:

1) Review the site and its context to understand the opportunities and constraints (such as existing and possible zoning and district plan requirements, contour and land area, surrounding land uses, as well as existing linkages) to alternative land use options;

2) Consider a range of land use options and provide preliminary options that describe road patterns, open space and density of development for those;

3) Workshop options with representatives from TY and Wellington International Airport Limited;

4) Complete and present the preferred masterplan option in a form that allows valuation.

5) Review responses from the airlines and their expert advisers regarding the initial master plan option dated May 2011.

6) Evaluate the responses received and amend the master plan as appropriate.

It is noted that the master plan was amended in response to the feedback in respect of the area provided for business park (large format commercial in a campus setting). The amendment resulted in an approximate halving of the area identified for the business park use and its replacement with residential uses. The reasons for the amendment were (a) to provide an increased opportunity for residential activities close to the golf course amenity; (b) to recognise that the business park use, while a significant opportunity for the city given no other similar offerings in the market currently given flat serviced urban land shortages with quality amenity settings, was a larger extent of area than was likely to be readily taken up in the market; and (c) residential activities are a well known market offering and can further supplement the other uses of the plan including the town centre and its amenities.

Note

The masterplan has been prepared by Boffa Miskell Limited on the basis of the information provided by TY and involves no detailed investigations as to services, infrastructure, hazards or risks associated with the area, or the commercial conditions in the market.

Boffa Miskell Limited provides this report as advice and accepts no commercial liability for the purposes to which it is put to use.

Urban Planning Context

URBAN DEVELOPMENT STRATEGY (2006)

This WCC strategy defines a long term direction (30-50 years) for urban development in Wellington. It proposes to direct growth to where the benefits are greatest, where adverse effects are minimised and improve the quality of development. The growth scenario for long term planning purposes is 50,000 more people in the city by 2055. One of the key features of the strategy is a proposed 'Growth Spine' from Ngauranga to Wellington Airport defined as 'transit orientated intensification of employment and housing along a spine of growth'.

The two key implications for the airport area from this strategy are:

1. Improved transport connections to the airport. The location of the airport as the end point of a growth spine which is supported by a core public transport link and some road improvements implies the likelihood of enhanced accessibility from within the city to the airport and its surroundings. The transport implications are discussed in greater depth in the Ngauranga to Wellington Airport Draft Corridor Plan below.

2. Future growth along the spine. Both residential and employment growth is proposed to be directed along the growth spine providing opportunities to intensify current land uses around the airport area.

NGAURANGA TO WELLINGTON AIRPORT CORRIDOR PLAN (2008)

This plan is connected directly to the Wellington Regional Land Transport Strategy (RLTS 2007-2016) which guides the long term development of the region's transport system. The plan outlines the current and ongoing activities and initiatives within the corridor then sets out proposed improvements and actions. The area of Kilbirnie is highlighted as a growth node in the plan.

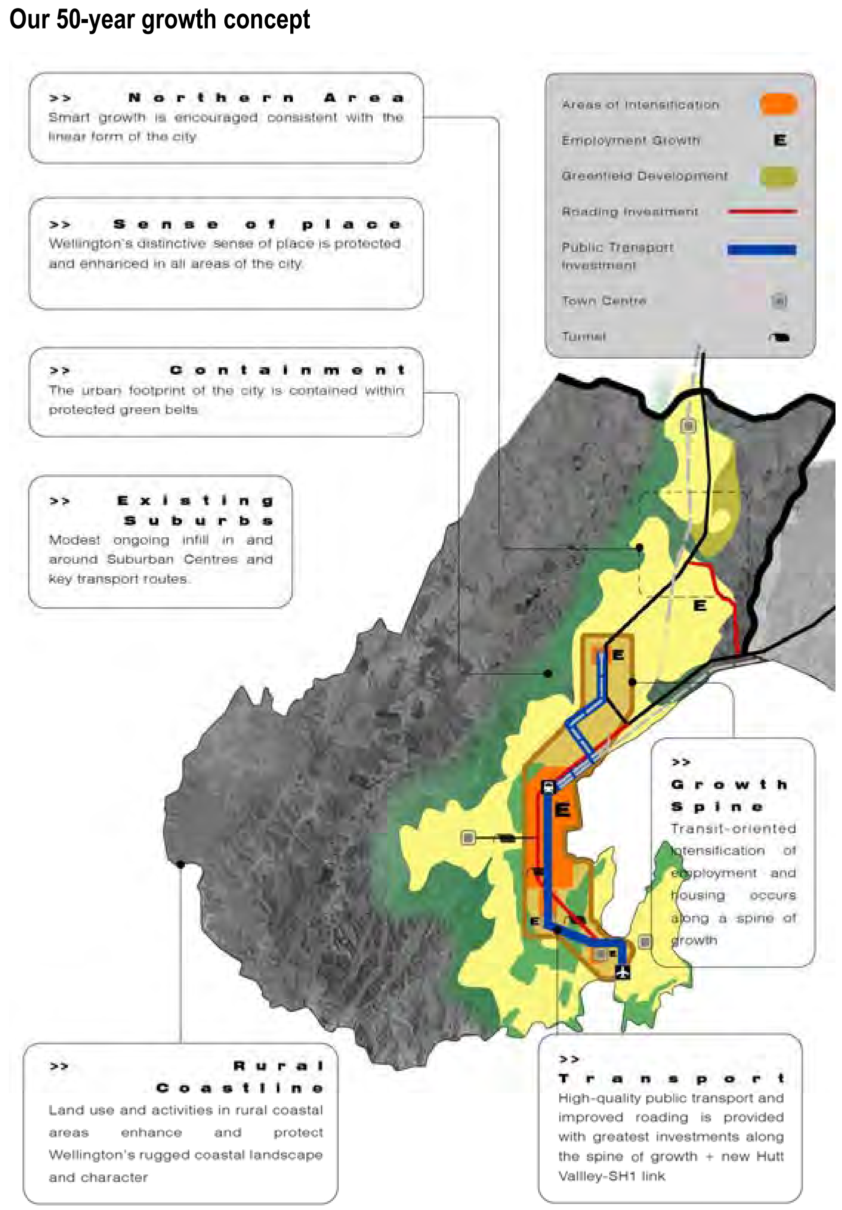
HOW AND WHERE WILL WELLINGTON GROW? DISCUSSION PAPER (2008)

As part of the implementation of the Urban Development Strategy, Council initiated a major review of infill housing opportunities. This discussion document forms part of this review. The main initiative outlined in this discussion document is a targeted approach to infill housing - encouraging growth in and around key centres with good infrastructure and public transport, while restricting growth in areas of 'special' character (refer to Infill Housing Policy above).

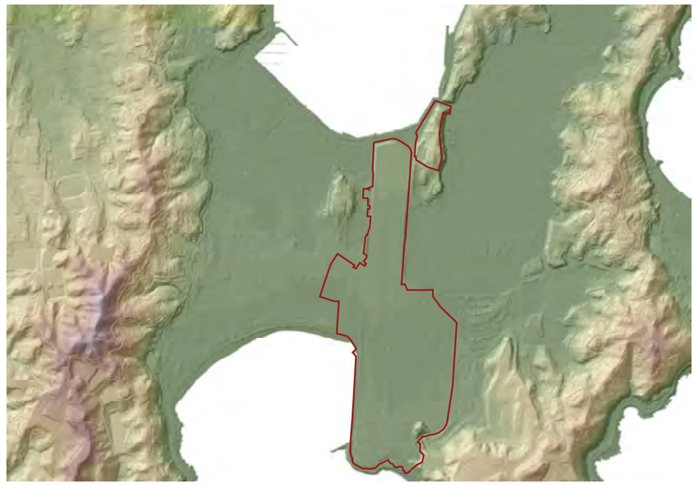
The paper lists 'areas of change' (growth areas) and 'areas of character protection'. Kilbirnie, Miramar and Lyall Bay Parade are listed as areas of change in the paper. These are areas where comprehensive redevelopment of housing would be encouraged and facilitated, resulting in moderate to significant increases in residential density and changes to the character of the areas. It is noted that following public feedback on this strategy, Council has changed its plan to concentrate only on three centres in the near future: Kilbirnie, Johnsonville and Adelaide Road. Kilbirnie is most proximate to the airport area.

In applying the Commerce Commission requirements for a hypothetical situation whereby the airport is not located on the subject land, consideration has been given to how this Urban Development Strategy might reasonably have been, or be applied today. Assuming the hypothetical situation of the subject land being vacant and available it would be logical for that Strategy to adopt the land as its southern area growth node as it is well located relative to the main transport routes, the southern suburb catchments in terms of commercial and town centre civic amenities, the coastal edges to the north and south as well as golf course open space, is relatively flat and easily developable, and also a significantly easier place to produce mixed use and higher density residential development than trying to achieve this in an already developed urban context such as that which exists at Kilbirnie.

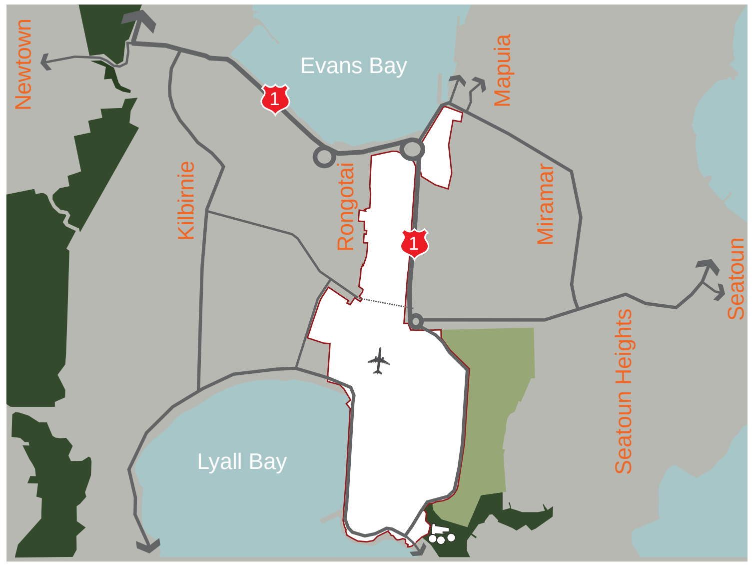
To implement the Urban Development Strategy and/or enable the airport land to be developed would require the zonings to be changed – a change to the zone here for the purposes of urban development (provided it sought to achieve the aims of the Strategy) would be consistent with the intent of that strategy albeit that the focus would move from Kilbirnie to the subject land.



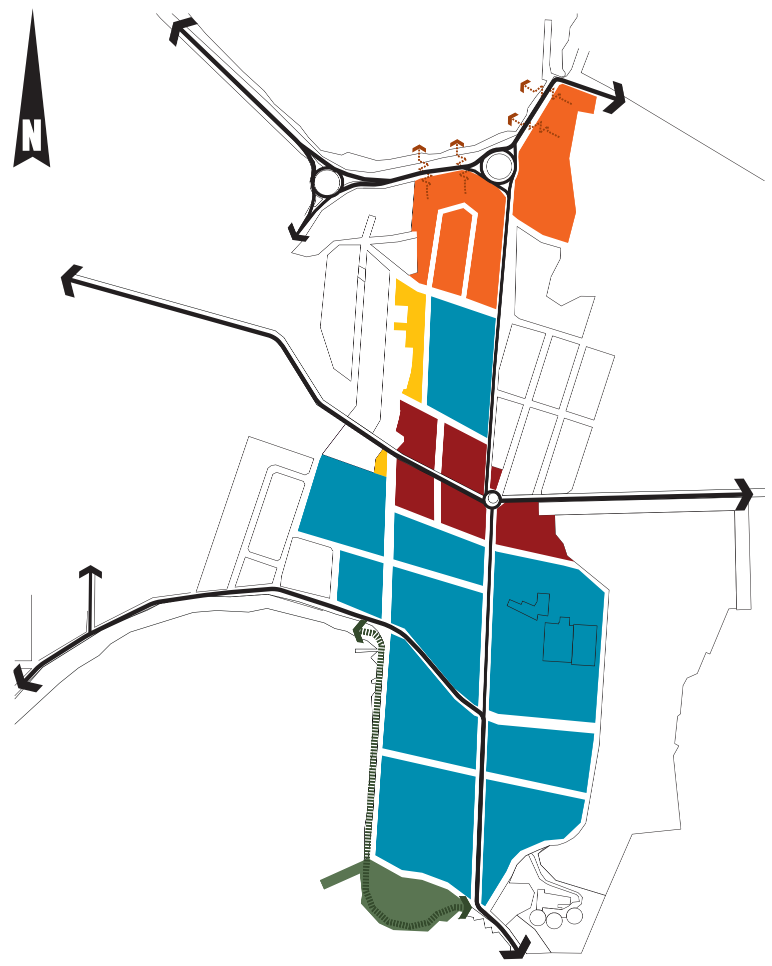
Wellington City Council 50 Year Growth Concept



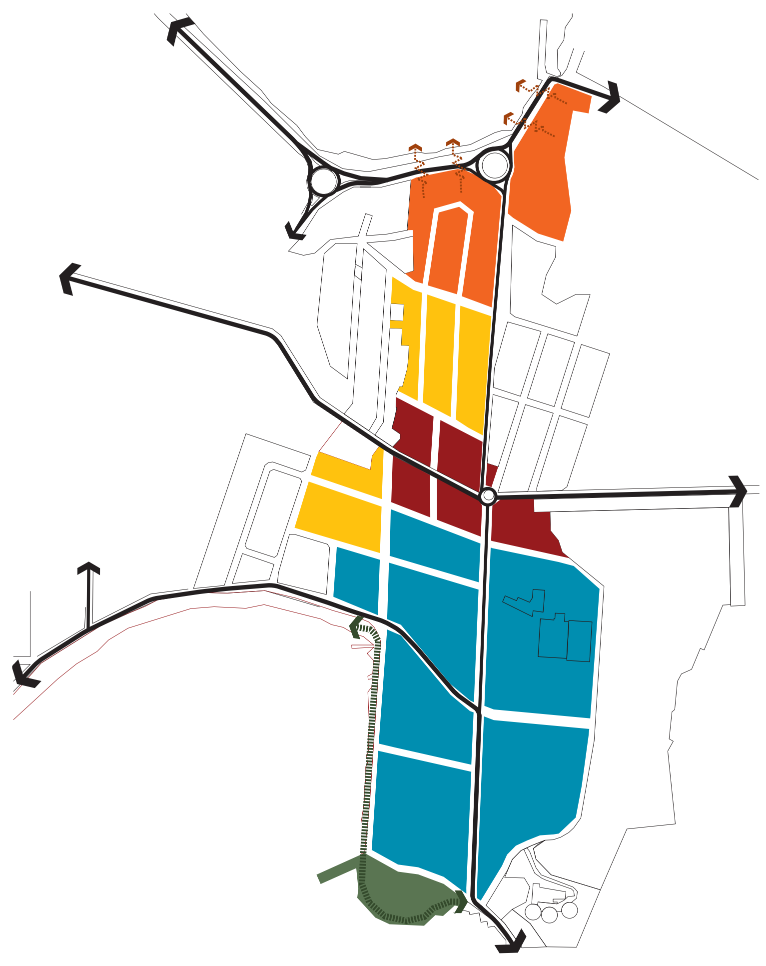
Elevation of airport and surrounding context highlighting the flat low lying topography of the reclaimed airport land



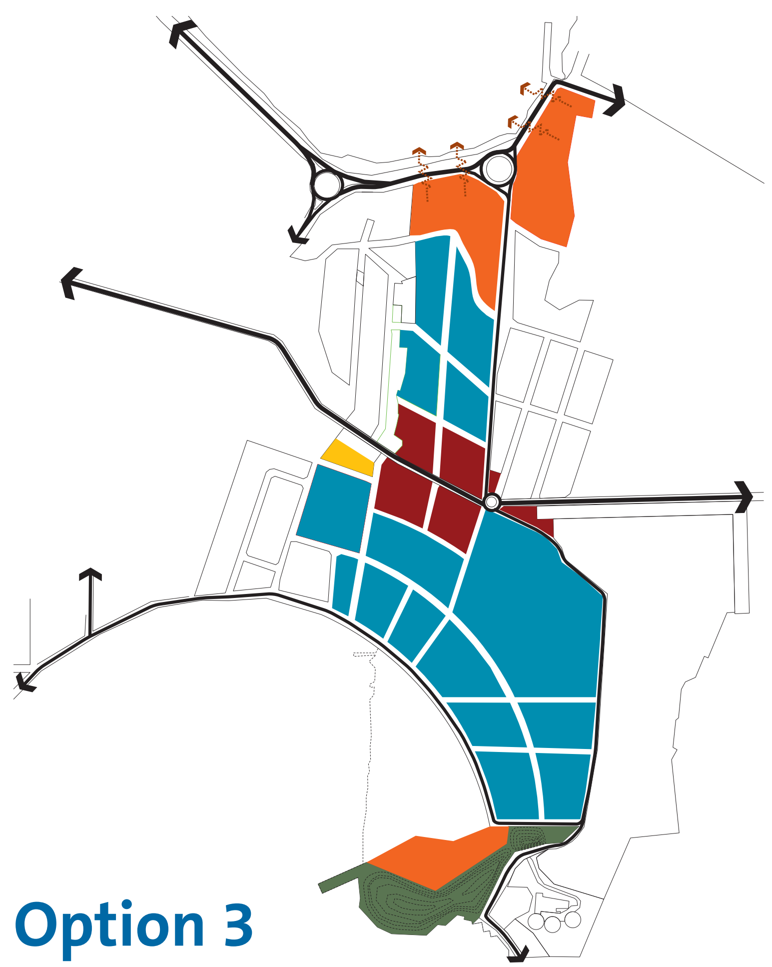
Analysis of the airport site in the context of surrounding communities & the primary movement routes



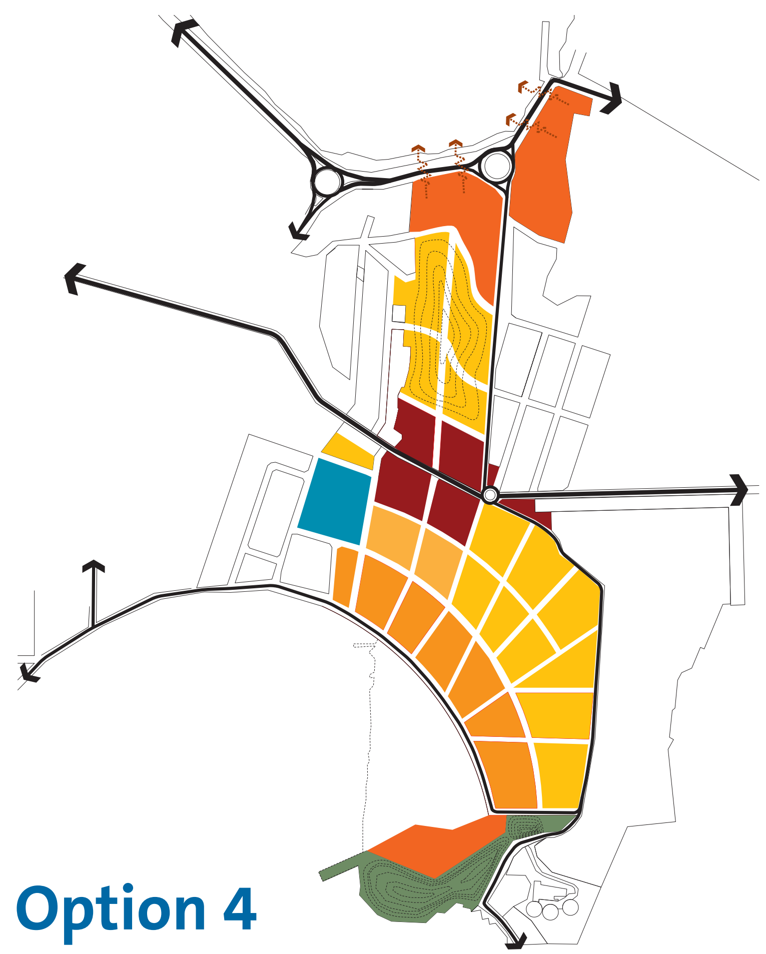
Option 1



Option 2



Option 3



Option 4

Boffa Miskell
www.boffamiskell.co.nz

Preliminary Land Use Options

Four preliminary land use options were investigated with a mix of residential and commercial land uses.

Options 1-2 worked within the existing line of reclamation and essentially differ in the balance of commercial versus residential land, with Option 1 predominantly commercial and Option 2 providing greater residential development in the middle blocks.

Options 3-4 investigated the potential for wider ranging transformation involving declamation of the coast providing both recreational opportunities for the community generally and a setting and views for new residential development beside. The old bay line provided a reference for the recovery of the historical and more natural coastal landforms. Declamation fill was utilised to create elevated residential land in the middle blocks to recreate former dune landforms in a way that would provide greater shelter and afford coastal views to the north and south.

All four options included the provision of a new headland park on the South Coast and new road connection between Rongotai and Seatoun by connecting Coutts Street and Broadway. In all cases provision is made for a new town centre on this route where the passing traffic can generate commercial opportunities.

Evaluation

Options 3 - 4 were not preferred on the basis that the technical and economic feasibility of declamation is unknown and as such may be considered too large an assumption in terms of its impact upon future land valuation.

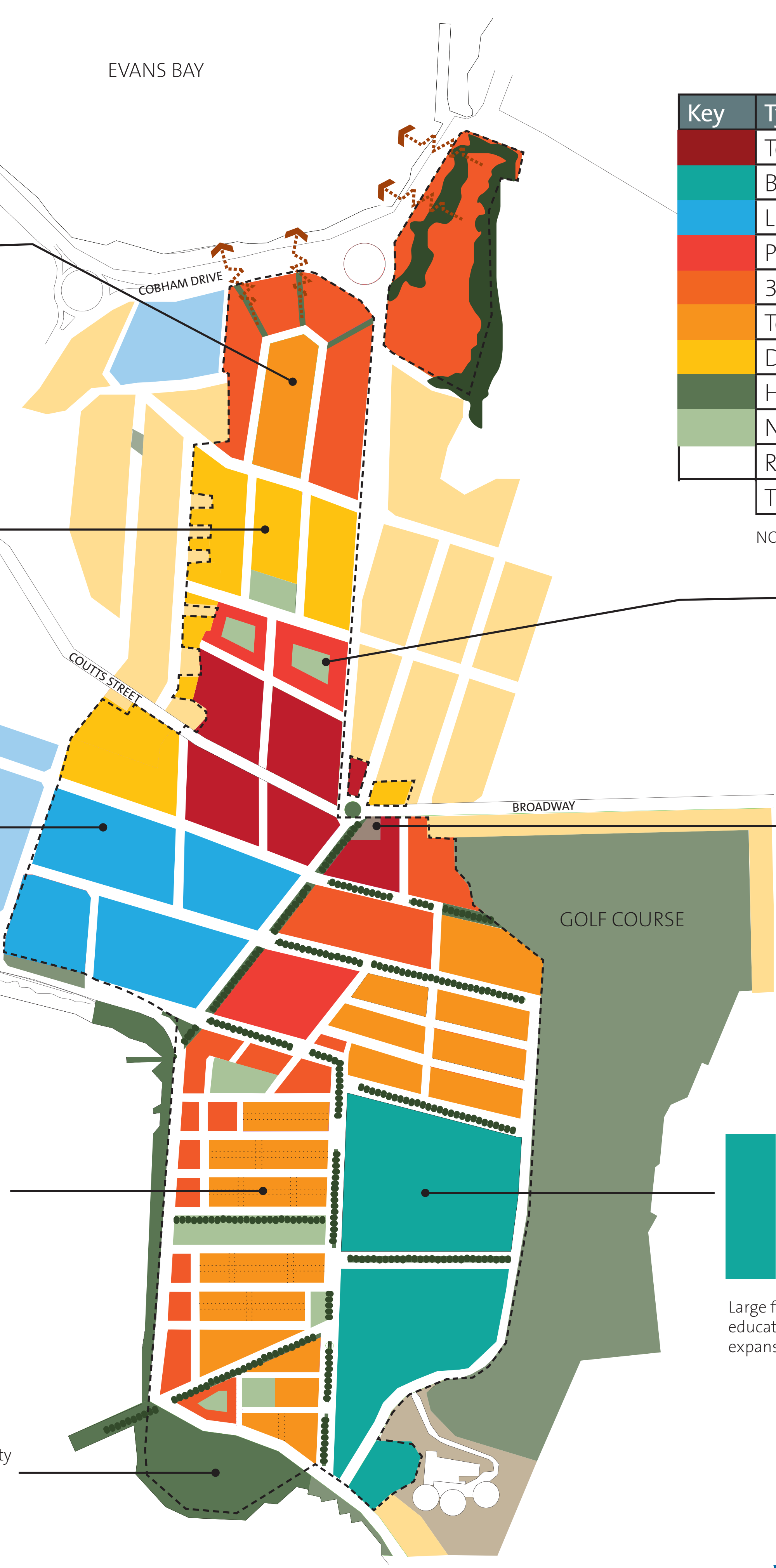
Option 2 was selected for further development and refinement with the need for further provision of residential land in the middle of the landholding, and greater refinement and distinction made between higher value business park land and lower end commercial and large format retail land.

The preferred plan was advanced to a further stage of masterplanning and development involving greater detail of local street network and finer grain of development of both commercial and residential lands and the types of development anticipated across the site.

The final masterplan is depicted in the two sheets that follow.

Key

- New town centre on Coutts/Broadway connection
- Higher density residential development with a mix of apartments, townhouses and detached family dwellings
- Detached single family dwellings
- Large format commercial/business park uses
- South Coast headland park
- Arterial Street Network



Key	Typology	Gross Area (Ha.)
	Town Centre (incl public square)	7.50
	Business Park	13.68
	Large Format Retail	10.41
	Perimeter Block Apartments/Retirement Housing	4.38
	3-4 Storey Apartments	19.18
	Townhouses	15.37
	Detached Family Housing	8.64
	Headland Park	4.98
	Neighbourhood Open Space	4.58
	Roads	20.98
	TOTAL	109.70

NOTE: Moa Point Road Reserve property (1.90 ha) not mapped

Evans Bay coastal communities with a mix of apartments, townhouses and detached family dwellings set within communal open spaces and designed to maximise connections to coast and open space surrounds

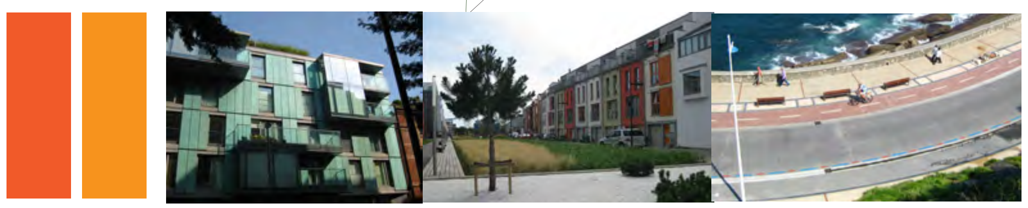
Detached single family dwellings within Seatoun-style neighbourhoods offering flat sections, offstreet parking and easy ewalk to foreshore and town centre

Large format retail extension of existing retail park development

Medium density perimeter block housing development/retirement village development adjacent to town centre

New town centre on Coutts/Broadway connection

Large format commercial providing opportunity for high value business park/ educational/research or other campus-style developments taking advantage of expansive coastal and golf course setting



Lyall Bay coastal and golf course communities with a mix of apartments, townhouses and detached family dwellings set within communal open spaces and designed to maximise connections to coast and open space surrounds

South Coast Headland Park sheltering coastal community defining end of restored Lyall Bay Foreshore

0m 100m 200m 300m 400m 500m 600m 700m 800m 900m 1000m

Scale 1:10000 (A3)

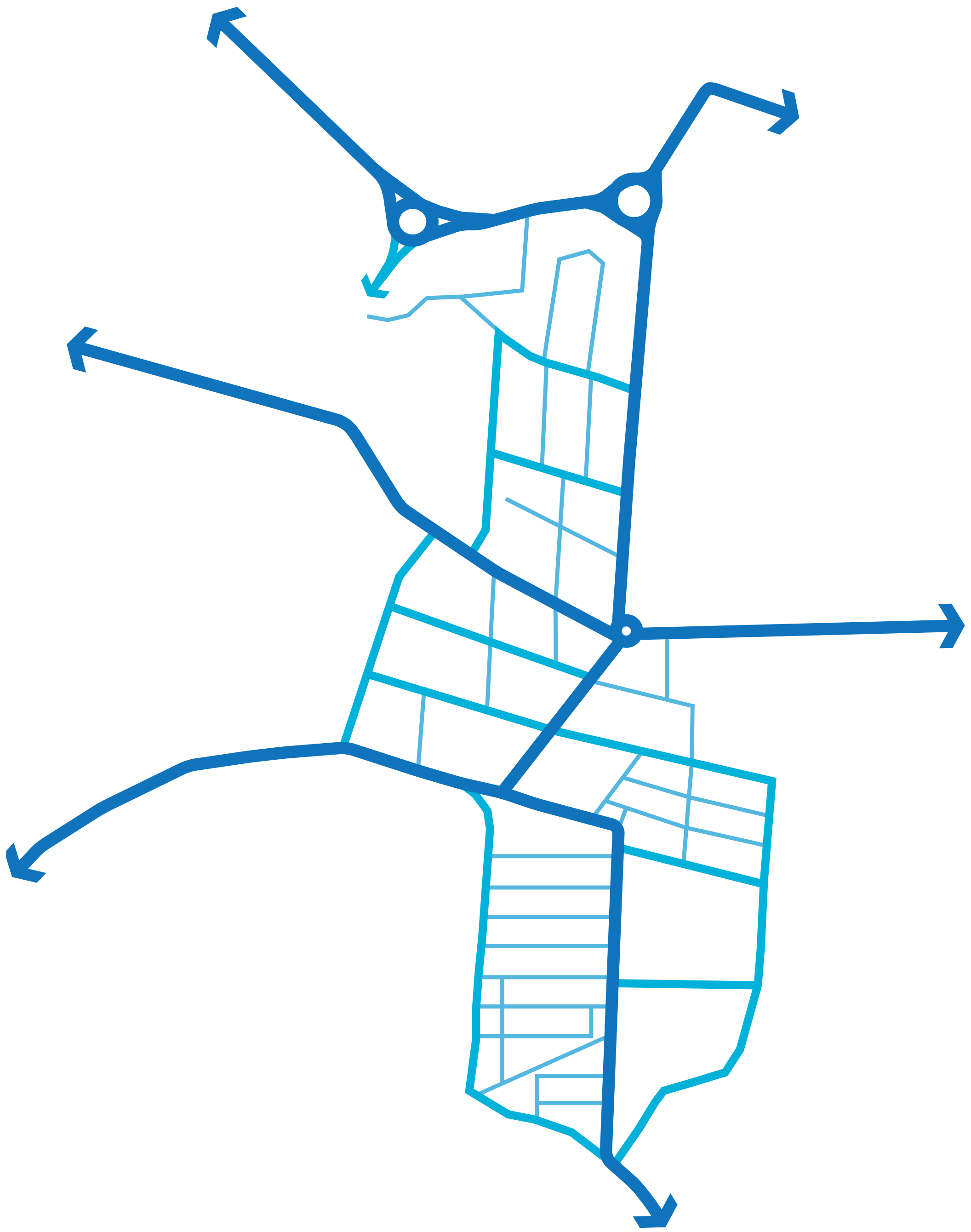
Developed Option

WELLINGTON AIRPORT MASTERPLANNING: ALTERNATIVE LAND USE OPTIONS

FOR LAND VALUATION PURPOSES ONLY

Boffa Miskell

www.boffamiskell.co.nz



STREET HIERARCHY

Arterial (30.0 metres)

Collector (20.0 metres)

Local (15.0 metres)

GREEN INFRASTRUCTURE

HIGHER AMENITY FRONTAGES

Waterfront Frontage

Open Space Frontage

BARNZ Response

Wellington International Airport Limited

Date: 12 August 2011

Client: Wellington International Airport Limited

TelferYoung (Canterbury) Limited

12 August 2011

TelferYoung
Canterbury

The Chief Financial Officer
Wellington International Airport
P O Box 14175
WELLINGTON 6241

Attention: Mr Martin Harrington

Dear Martin

Re: BARNZ Response

1.0 Introduction

We have been provided with a copy of the Board of Airline Representatives New Zealand Incorporated (BARNZ) response to the TelferYoung Draft Valuation Report.

2.0 Instructions

We have been requested to provide you with comments on the matters raised by BARNZ in their review of the Draft Valuation Reports prepared by TelferYoung.

Many of the issues raised by BARNZ are also covered in the review undertaken by Property Advisory Limited. We have previously made comments on these direct valuation issues.

We shall focus on two issues raised by BARNZ comprising the comparison with previous MVAU/MVEU valuations and the cost of capital.

3.0 Valuation Comparisons

BARNZ have commented upon the change in both the MVAU and MVEU valuations from 2006, 2009 and 2011 leasings using the hypothetical DCF valuation approach.

The valuations in 2006 and 2009 related to the entire airport landholding whereas in 2011, areas which meet the requirements of the Commission's determination in terms of the highest and best alternative use, have been excluded.

The areas which are considered to meet the definition of highest and best alternative use comprise:

- Airport Retail Park
- Northern Investment
- Southern Investment
- Residential Landholdings

These areas are either separately titled or could be separately titled immediately with a boundary adjustment.

By incorporating these in the hypothetical DCF subdivision as occurred in 2006 and 2009 their value was significantly reduced as they were treated as part of a far larger landholding which would require full development over an extended realisation period. The reality is these properties could be sold at "full" market value immediately as they are already "developed".

The major difference between the 2006/2009 and 2011 valuations is that expert town planning advice has been obtained to establish the most likely development of the land. This is as required by the Commerce Commission.

This has resulted in a significant change to the conceptual composition of the land from a development perspective. Previously the DCF valuation has been undertaken assuming a 50% residential component and only a 20% industrial and commercial use.

The expert advice from Boffa Miskell has resulted in a major change with the residential component reducing to 38% and retail/business use increasing to 34%.

This results in a higher potential gross realisation. This has however been substantially offset by a significant increase in development costs from $44,000,000 to $101,000,000 for a reduced land area.

The realisation period was reduced from 10 years to 7 years to reflect the fact that the change in the mix of uses would result in different absorption rates than was anticipated in 2006/2009 and the reduced land area under development.

4.0 MVEU Costs

BARNZ provide a comparison of MVEU costs from 2006 to 2011. The allowance for rates and planning costs is identical between 2009 and 2011 with the only change being the cost of capital.

The cost of capital is based upon independent expert advice from Sapere Research Group.

The cost of capital reflects the profile of a new airport developer.

The change in the cost of capital from 10.00% in 2009 to 13.40% in 2011 has a substantial impact on the cost to bring the land to airport use. It accounts for approximately 90% of the total cost to bring the land to airport use from the adopted MVAU valuation.

5.0 Conclusions

The basis of valuation has changed substantially from 2006/2009 to 2011 which reflects the requirement of the Commerce Commission determination.

Expert planning advice has been obtained from Boffa Miskell to consider the most appropriate and likely form of development.

As required under the MVAU definitions in Schedule A to the Determination the MVAU is "the value of the land in its highest and best alternative use".

It represents the most probable use of Airport land, other than for supplying specified airport services, or a use to an extent that is influenced by specified airport services which is physically possible, appropriately justified, legally permissible, financially feasible, and results in the highest valuation of the land.

In relation to the cost to bring the land to airport use under the MVEU valuation model allowance for costs has been consistently applied from 2006 to 2011 to allow for holding costs in the form of rates, costs associated with Resource Consent and the cost of capital.

The cost of capital adopted in 2011 has been based upon expert advice on the cost of capital for a new market participant.

Yours faithfully
TelferYoung (Canterbury) Limited

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

TelferYoung

Valuers Property Advisors

BARNZ Response - Property Advisory Limited

Wellington International Airport Limited

Date: 12 August 2011

Client: Wellington International Airport Limited

TelferYoung (Canterbury) Limited

12 August 2011

TelferYoung
Canterbury

The Chief Financial Officer
Wellington International Airport
P O Box 14175
WELLINGTON 6241

Attention: Mr Martin Harrington

Dear Martin

Re: Property Advisory Limited - Land Valuation Review

1.0 Introduction

We have been provided with a copy of the Property Advisory Limited (PAL) Report dated 14 July 2011 addressed to The Board of the Airline Representatives of New Zealand in relation to the MVAU valuation prepared by TelferYoung.

2.0 Instructions

We have been requested to provide you with comments on the matters raised by PAL in their Review of the TelferYoung (TY) MVAU valuation.

3.0 Framework - MVAU Definition

The Commerce Commission requires the valuer to establish the Market Value Alternative Use (MVAU) which means the value of land in its highest and best alternative use.

This means the most probable use of the airport land, other than for supplying specified airport services, or a use to the extent that it is influenced by specified airport services which is physically possible, appropriately justified, legally permissible, financially feasible and results in the highest valuation of the land in question.

The valuation is required to achieve the highest valuation of the land within the framework prescribed.

TelferYoung (Canterbury) **Limited**
Level One, Beatson House, 245 Blenheim Road, PO Box 2532, Christchurch, New Zealand
Telephone: +64 3 379 7960 Facsimile: +64 3 379 4325
Email: telferyoung@.telferyoung.com website: www.telferyoung.com
+ Chris Stanley + John Tappenden + Mark Beatson + Mark Dunbar + Victoria Murdoch

4.0 MVAU Methodology (PAL Section 2.0)

PAL have concluded that:

"Our review of the valuation steps and methodology adopted by TY when assessing the MVAU of the WIAL land as at 31 March 2011, indicates the methodology adopted appears to meet the International Valuation Standards and Part IV of the Commerce Act".

PAL have commented that the valuation parameters:

"…. adopted by TY in undertaking the MVAU valuation appear to be very aggressive, and as a result bring into question the reasonableness (in terms of being appropriately justified, legally permissible, and financially feasible, of the valuation".

Notwithstanding these comments, which we comment on further below, PAL appear to conclude the methodology adopted and the reporting meets the requirements of the Commerce Commission Determination and International Valuation Standards.

5.0 MVAU Valuation Inputs (PAL Section 3.0)

PAL have difficulty reconciling the land holdings with the stated land areas. This may well be a result of the recent changes to land areas possibly from subsequent acquisitions. We note however the difference in area is minor and does not have a material impact on the value. If PAL wish to provide a copy of their analysis WIAL have advised they will seek to reconcile the difference.

PAL agree that areas associated with the Airport Retail Park, Northern and Southern Investment and residential land holdings do not form part of specified airport activities and can be excluded. PAL agree that in practical terms the TY valuation *"appears to comply with the aggregation concept"*.

PAL make a comment on Paragraph 22 page 5 that *"…. it appears that the TY inputs to the MVAU can leverage off the existing airport retail activities"*.

This is incorrect. The reference to leveraging off the existing airport retail park has no relevance to airport retail activities which are those provided within the airport terminal.

As explained repeatedly to PAL during our meeting the Airport Retail Park is completely removed from the main airport campus and terminal area. It is not an extension of the airport on campus retail development.

6.0 MVAU - Master Plan (PAL Section 4.0)

PAL consider that the Master Plan prepared by Boffa Miskell (BM) is *"too aggressive"*.

The PAL analysis relative to site densities and dwellings does not support the proposition that the Master Plan is *"too aggressive"*.

PAL question the value established at $525,000 for a 1000m² site as opposed to a detached family home at $250,000 for a 500m² site. One would certainly expect a differential between the two different types of land holdings due to the development density that can occur on the townhouse land.

The land value rates adopted for all categories of residential land reflect the scale of the proposed development and the flexibility available due to the roading layout to provide a range of block sizes. This issue has not been considered in the PAL report.

Without the benefit of a fully detailed subdivision plan showing individual allotments it is impossible to establish individual section sizes and total yields from the development.

PAL have come to the conclusion that:

"As a result we believe the more realistic MVAU master plan would follow the ZPS proposal with a smaller 2 hectare town centre (often a supermarket with a range of specialty shops, commercial services and fast food), an expansion of existing large format retail to the west of the existing airport of say 5 hectares, no office park development, and the balance land comprising medium to low density residential housing".

In our opinion PAL's comments are not supported by market reality.

In relation to a supermarket there are numerous instances around New Zealand where supermarket operators, simply for a stand-alone supermarket, have acquired land holdings between 1.2 and 2.8 hectares. For example:

Location	Operator	Land Area
Blenheim	Foodstuffs	2.2 hectares
Southbrook	Foodstuffs	2.8 hectares
Rangiora	Progressive	1.5 hectares
Queenstown	Foodstuffs	2.2 hectares
Picton	Progressive	1.2 hectares
Riccarton	Foodstuffs	1.3 hectares
Hornby	Progressive	1.9 hectares

There are also a number of situations where rest home operators have purchased land sites well in excess of 2.0 hectares. For example Ryman land holdings include:

Location	Land Area
Nelson	4.9 hectares
New Plymouth	7.9 hectares
Lower Hutt	3.6 hectares
Waikanae	6.9 hectares
Tauranga	4.0 hectares

7.0 MVAU - Block/Zonal Valuation Approach (PAL Section 5.0)

PAL agree that the block/zonal valuation approach is appropriate in terms of the Commerce Commission decision.

PAL take issue with reference to land sales in other areas of New Zealand however consider that these block sales could have been analysed to provide evidence of:

+ $/ potential allotment
+ Gross realisation
+ Sell down periods
+ Development costs
+ Required rates of return

As explained to PAL during our meeting a large number of the block sales referred to have been developed as single user site or for a very limited number of sites. Accordingly there is no ability or necessity to analyse sell down periods, development costs and required rates of return. These are no conventional subdivisions and therefore a residual valuation approach does not apply.

Examples of this include the following sales shown in our report:

Location	Land Area	Development
Halswell Junction Road	6.7 hectares	Comprehensive development
Peer Street	4.0 hectares	Supermarket and Rest Home
Radcliffe Road	9.2 hectares	Shopping Centre
Ferry Road	2.1 hectares	Bulk retail
Peer Street	1.3 hectares	Supermarket
Chappie Place	3.9 hectares	Supermarket
Shotover Park	2.2 hectares	Supermarket
Grant Road	7.8 hectares	Supermarket/Comprehensive development
Jackson Street	1.2 hectares	Supermarket
Grant Road	23.3 hectares	Comprehensive development
Shands Road	13.0 hectares	Warehousing

PAL make the observation that their analysis has highlighted a number of other transactions which offer pertinent value benchmarks.

PAL only refer to one land sales not *"a number of other transactions"*.

The sale of the land in Keneperu Drive, Porirua was from the Capital & Coast District Health Board to OTS. The property was not freely exposed to the market being a negotiated transfer. It was not market tested.

The property has significant issues with contamination, landfill and an area of covenant reserves. Its location, form, and function make it of little relevance to the WIAL land holding.

Notwithstanding these comments PAL have not provided any detailed analysis of this transaction in terms of:

+ Gross realisation
+ Sell down periods
+ Development costs
+ Required rates of return

8.0 MVAU - Gross Realisation (PAL Section 6.1)

PAL state that they agree with the TY approach however believe the proposed MVAU developments mix *"too aggressive"*.

This is not supported by any analysis. This is simply valuer opinion.

PAL however do make the comment that the gross realisations on a per hectare basis adopted by TY for the town centre, business park and retail land uses sit within *"our observed value range"*.

In relation to medium density apartments and townhouses PAL consider their analysis of sales suggest *"higher land values than those adopted by TY"*.

PAL have come to the conclusion that TY have "marginally" overstated the average gross realisation for stand-alone residential sections. This is simply a matter of valuer opinion.

In summary PAL appears to agree that the values adopted are realistic.

9.0 Costs of Sale (PAL Section 6.2)

PAL accept these are *"fair and reasonable"*.

10.0 Development Expenses (PAL Section 6.3)

PAL have analysed the development expenses and make no comment as to whether they accept or challenge the development expenses, seeking independent advice as was undertaken by TY by instructing Opus.

PAL make reference to maintaining the sea walls. They refer to the annualised maintenance costs of WIAL of $300,000 per annum.

We do not believe an allowance should be made for sea wall protection. In the absence of an airport on the site the Council would maintain infrastructure to preserve the development.

11.0 Profit and Risk Allowance (PAL Section 6.4)

PAL discuss the profit and risk allowance adopted of 25% and the issues that are reflected in the profit and risk allowance. PAL come to the conclusion that required return/profit and risk allowance *"currently range from 10% to 40% of outlay"*.

TY have adopted 25% which sits in the middle of the range analysed by PAL. This would suggest the adopted rate is reflective of the general market and is not "aggressive".

PAL then make the observation that they believe the profit and risk allowance should be in the order of 30% to 35%. This is at the top of the range PAL have "analysed".

The profit and risk at 25% as adopted equates to $88.6m. If this was increased to 30% - 35% as suggested by PAL this would equate to $102m - $115m.

PAL have suggested an identified range of 10% to 40% which would be $40m to $126.5m. The adopted rate of 25% is in the middle of this range.

12.0 Interest Holding Costs

PAL accept that a 9.00% interest holding charge for half the development period is realistic. PAL have suggested a development horizon of 15 years. There is no basis provided for this observation.

We can not accept that a realisation period of 15 years represents market reality.

As discussed in the report the form of development proposed will provide a wide range of development opportunities that would be very attractive to purchasers. The mix of uses and locational attributes would result in a strong market demand and uptake.

13.0 DCF Summary (PAL Section 6.6)

PAL consider the hypothetical subdivision budget prepared by TY is overstated. This is almost entirely due to realisation period and risk allowance. This is not supported by any detailed analysis.

PAL appear to accept all other inputs to the valuation model including the gross realisation, costs and interest.

14.0 MVAU - DCF Hypothetical Subdivision (PAL Section 7.0)

Similar to the traditional model PAL are of the opinion the Master Plan is "too aggressive" and the adopted realisation period is substantially "too short". This is purely valuer opinion.

15.0 Development Horizon (PAL Section 6.7)

PAL have undertaken an analysis of the proposed densities and absorption, referring to an analysis between lots and actual density. In our opinion this analysis is flawed.

For the apartment/retirement housing TY allowed 22 lots at an average area of 1000m^2. PAL have reanalysed this to be 88 lots at 250m^2. This is not realistic.

As discussed in the TY report there is a high probability the entire block of 2.2 hectares would be purchased by a retirement home operator. It would not result in 88, 250m^2 lots.

A similar analysis has been applied to the apartment, townhouses and detached family housing. With reference to the three and four storey apartments TY calculated 191 lots of 1000m^2. This would allow for multi unit development on these sites. PAL have reanalysed this to create 736, 250m^2 lots. This is incorrect.

A developer, builder or owner would purchase a single site and develop multi units on the site. They would not be subdivided into individual land holdings to be-sold. They would be developed as completed units.

By use of this re-analysis PAL have converted the potential 456 residential allotments into 1,112. This does not reflect market reality.

In a co-ordinated subdivision a developer would provide a mix of section sizes and a mix of densities. Each individual unit/apartment site would not be separately subdivided and on sold.

The PAL approach has resulted in an inflated total number of sites developed and impacts on the PAL estimate of the sell-down period. The approach mixes land sales with completed property sales.

PAL refer to the Urban Development Strategy (UDS) for Wellington which estimates 512 new residential dwellings will be required per annum in Wellington over the next 40 years. If we exclude the PAL resthome site calculation, the Master Plan subdivision will provide 1090 units over 7 years or 156 pa. The UDS suggest that 56% will be in medium/high density housing in areas close to the airport land holding. This fits with the Boffa Miskell model.

We do not accept the PAL suggestion that the sell-down periods are unrealistic.

16.0 MVAU Summary

PAL agree that the DCF hypothetical subdivision model adopted by TY *"appears to be accurate and works within the bounds of the stated valuation inputs"*. PAL take issue with the sell-down period. For this reason PAL believe the valuation is overstated.

The principle objections PAL have to the assessed valuation can be summarised as follows:

+ The form of development envisaged in the Master Plan
+ The realisation period

The Master Plan has been prepared by planning experts Boffa Miskell.

The sell-down period reflects the scale of the development and the unique nature of the Wellington Airport land holdings.

17.0 Our Conclusions

PAL conclude that TY have adopted methodologies required by the Commerce Commission Determination. PAL agree that TY have undertaken the following:

+ A Schedule of land has been developed.
+ Ownership, tenure and aggregated land areas stated.
+ Determined the existing zoning and likely zoning of the land.
+ Considered the highest and best alternative use in terms of physically, possible appropriately justified, legally permissible and financially feasible.
+ Considered resource management requirements.
+ Prepared a development plan using expert advice.
+ Determined the cost of developing the land.
+ Determined indirect costs of developing the land.
+ Undertaken market research and considered comparable sales.
+ Applied suitably justified market evidence.
+ Reconciled the results and approaches and determined a final value.
+ Prepared a valuation report incorporating all disclosures and met valuation standards.

PAL have raised issues relative to the realisation period and the proposed form of development.

We do not consider the issues raised by PAL on these two inputs are compelling and lead us to substantially change the realisation period adopted and the proposed format.

PAL have not provided a valuation based upon valuation methodologies that consider the value of the land by reference to the Block/Zonal Approach and Development Model and **"result in the highest valuation of the land"**.

Yours faithfully
TelferYoung (Canterbury) Limited

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

TelferYoung
Valuers Property Advisors

BARNZ Response - MVAU - Zomac Planning Solutions

Wellington International Airport Limited

Date: 12 August 2011

Client: Wellington International Airport Limited

TelferYoung (Canterbury) Limited

TelferYoung
Valuers Property Advisors

TelferYoung
Canterbury

12 August 2011

The Chief Financial Officer
Wellington International Airport
P O Box 14175
WELLINGTON 6241

Attention: Mr Martin Harrington

Dear Martin

Re: Zomac Planning Solutions - Master Plan

1.0 Introduction

We have been provided with a copy of the Memorandum prepared by Zomac Planning Solutions (ZPS) dated 7 July 2011 in relation to the Boffa Miskell Master Plan for Wellington Airport.

2.0 Instructions

We have been requested to provide you with comments on the matters raised by ZPS that impact on the TelferYoung (TY) MVAU valuation.

3.0 Retail Centre

ZPS make the statement:

"There is no justification for a 7.1 hectare retail centre."

The town centre is designed to accommodate all the retail associated functions required in a modern residential subdivision.

The retail centre would be ideally located to complement the existing bulk retail development close to the airport not only within the Airport Retail Park (ARP).

Modern supermarket operators require extensive land areas. We have been involved with many standalone supermarket operations throughout New Zealand where landholdings of between 1.2 and 28 hectares have been purchased. To complement the supermarket there would be a requirement for a range of specialty retail as well as financial services.

TelferYoung (Canterbury) **Limited**
Level One, Beatson House, 245 Blenheim Road, PO Box 2532, Christchurch, New Zealand
Telephone: +64 3 379 7960 Facsimile: +64 3 379 4325
Email: telferyoung@.telferyoung.com website: www.telferyoung.com
+ Chris Stanley + John Tappenden + Mark Beatson + Mark Dunbar + Victoria Murdoch

4.0 Bulk Retail

The ZPS report refers to a "large format retail of over 10 hectares."

The proposed large format retail area will complement existing development in the area providing an additional component of 7.14 hectares.

5.0 Office Park

ZPS question the scale of the Office Park. Smaller scale Office Parks range from 4.0 hectares to well in excess of 10.0 hectares in other New Zealand locations.

Boffa Mliskell have revised the Master Plan which now results in an effective net area of 12.80 hectares.

In these environments site coverage is often below 50% to provide high amenity values to tenants as well as providing extensive areas for parking.

The availability of large areas of land for office park use with the outlook to the golf course would result in an attractive office situation.

6.0 Reserves

The Development Plan provides total reserves of 9.56 hectares for a total developed land area of 72.65 hectares or 13.2%. ZPS suggest the reserves are small. Reserves of this scale, having regard to the developed land area, are in line with normal convention.

7.0 The Realisation Period

ZPS suggest the selling periods are optimistic. This is based upon "experience and observations of similar developments around New Zealand".

In our opinion the proposed redevelopment for Wellington Airport is unique having regard to the fact that it would be undertaken in a fully developed environment with traffic linkages and high amenity values provided by the coastal location, view to the hills and golf course.

This form of development cannot be readily compared with Greenfields locations on the periphery of urban areas in New Zealand.

Yours faithfully
TelferYoung (Canterbury) Limited

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

Boffa Miskell
Memorandum

☐ **Auckland Fax: 64 9 359 5300**
P O Box 91250
Level 3, IBM Centre
82 Wyndham Street
Tel: 64 9 358 2526

☐ **Tauranga Fax: 64 7 571 3333**
P O Box 13373
Level 2, 116 on Cameron
Cnr Cameron Road & Wharf Street
Tel: 64 7 571 5511

☑ **Wellington Fax: 64 4 384 3089**
Level 9, Hewlett Packard Building
186-190 Willis Street
Tel: 64 4 385 9315

☐ **Christchurch Fax: 64 3 365 7539**
86 Gloucester Street
Tel: 64 3 366 8891

Attention:	Chris Stanley
Company:	Telfer Young
Date:	14 November 2011
From:	Marc Baily
Message Ref:	Response to BARNZ points
Project No:	W11006

Chris

As we discussed by teleconference with Telfer Young and WIAL we have set out below some contextual points and also append additional graphics in support of the "highest and best use" land use plan we have been advising on. We also attach extracts from the work Wellington City Council has been doing in planning for Kilbirnie to help to illustrate the approach we have taken for the land use plan.

As discussed, the mix of uses is integral to the value realisation and we make the comments below in this respect.

1. Urban Planning and Residential Development Projections

We have taken a lead as to the expectations for residential growth in the city from Wellington City Council's planning documents and which are distilled in the Kilbirnie Town Centre Revitalisation Plan – key points below:

- *Wellington City is continuing to grow, with around 51,000 more people and 28,000 dwellings (mostly apartments and townhouses) expected by 2031.*
- *In accommodating expected growth, we will need to reflect the changing needs and lifestyles of our community. While most existing housing in the Kilbirnie area is made up of single detached dwellings, research*[6] *has shown the majority of future demand in Wellington will be for other forms of housing such as townhouses and apartments*

[6] *Housing Demands and Needs in the Wellington Region*, Property Economics 2005. *Quantifying the Growth Spine – Supply, Demand and Capacity for Residential Development in Wellington City*, Wellington City Council, September 2006.

Extrapolating from the research this equates to 2040 h/h per year. Considering the changing economic circumstances and accounting for the changes in cycles in the market for development over time we have always reflected on a more conservative view that if this growth was spread over a longer period (say to 2055) this would equate to more like 1000 h/h per year. A check with the building consents for new dwellings for the Wellington area also corroborates the lesser of these two figures (March 2010-Feb 2011=1390 dwellings).

2. Residential Development and the Master Plan

As per our notes from 5.7.2011 we have estimated residential units at 1460 [original 1290 +170 from change to residential from business park]. [Population on site would increase by approximately 3800 people on the basis of 2.6 people per household although this is likely to reduce to more like 2.3 given demographic changes which would equate to some 3358 people].

In relation to the WCC projections above at some 1000 units per year the airport area would contribute about 5% of the projected growth in households overall (ie spread to 2031 or 2055). On an annual basis the airport land capacity is approximately 1.5 years of the projected growth for the city overall. Clearly the area would not ever be the only option for residential development in the city and it would compete with the 'greenfield' offerings (such as in the Northern corridor with Churton Park or areas of Kapiti etc) albeit that the close proximity to the city provides a distinct advantage in likely demand at this site. However, it does provide some relative perspective as to the period of uptake that should be considered here.

3. Precedents for Residential Development in the Area

Planning for the airport land area and a reasonable alternative 'highest and best use' is difficult given the absence of any precedents for such a large area becoming available. It is also very different than the usual 'greenfields' type developments with the context the airport has of being within an existing urban context, being flat, with its attendant roading and other support infrastructure, social facilities and amenities and with coastal environments at both ends.

Despite there being no precedents for flat areas the same large size as that which would be offered by the airport site, we are aware of recent examples in this same area (southern suburbs of Wellington) where medium sized parcels of flat land have become available to the development market and that are embedded within the existing urban context.

All of these have resulted in the mix of residential types and densities being proposed for the airport land in the Boffa Miskell master plan. The development has all been undertaken by the process of the larger sites being acquired and developed by a development company and the units being sold.

We would expect the same response from the opportunity for development of the airport land – it would be sold in large tranches and developed as groups of units on a comprehensive basis according to any requirements for the structure of the site layout (such as set out in the District Plan). The local examples we are aware of that have been developed in this way are:

- Fort Dorset, Seatoun (ex Defence land)
- Rita Angus Retirement Village, Kilbirnie (ex WCC bus depot land)
- Greta point, Evans Bay (ex Harbour board land)
- Evans Bay Slip Apartments, Evans Bay (ex WCC/Harbour board land)

We have attached aerial and site photographs of these medium site developments (refer to Attachment 1) to show the extent of the site area relative to the master plan and the density of these. With the opportunity presented by the large flat airport site the method by which its disposal and acquisition would occur would likely be similar to those above, and the form of development the market will likely respond with will be similar given:

- larger flat sites which enable higher value yields, less site development cost (than steeper greenfield sites), and more efficient site planning
- coastal environment and opportunities for views at both the north and south ends of the site
- the demand for smaller units with some on site open space to reflect the choice of living environments sought
- utilisation of the wider open spaces of the coastal areas, sport grounds, gold course, Watts peninsula, and town belt areas in the immediate vicinity.
- encouragement by WCC of more compact forms of development (as evidenced by the plans for Kilbirnie)

4. Commercial development

As per our memo to WIAL of 1 August 2011 we have taken the approach with the airport land area that in conjunction with the development of the area as a comprehensively planned place there will be an opportunity and benefits for the prospective residents and the area in general that there is a town centre. This provides the role of both a community focus giving identity, but also area –wide facilities and services.

Its hierarchy and location derives from the intention of the Wellington City Council Growth Concept that indicates a growth and high quality transport spine between Johnsonville and the southern area of Wellington. The end 'node' of the that spine is currently proposed to be Kilbirnie and a revitalisation plan for Kilbirnie is proposed that aims to significantly increase the density and development here to provide a choice of living environment for residents of Wellington (Attachment 2 provides some images).

In developing alternative and highest and best land use scenarios for the airport land, we have suggested that a new town centre centrally located within the airport land is a more likely and logical alternative spine end than at Kilbirnie given:

- the confluence of transport routes through to the eastern suburbs of Seatoun, Miramar, Strathmore and the bay settlements as well as the future park redevelopment area at Watts Peninsula are more directed to the airport area than to Kilbirnie
- the significantly easier development potential for town centre (and surrounding residential densities) given the airport land is vacant – the Kilbirnie revitalisation plan will require demolition and redevelopment of large areas to enable the outcome sought - it will be significantly easier to develop the airport land to provide for the projected demand for retail and office and other services for the southern suburbs

For these reasons we would regard the new centre as having equality or primacy with the existing Kilbirnie centre and greater role than the smaller retail Miramar centre. Kilbirnie would accordingly still be able to have improvements, on a more modest scale than currently shown and consolidate within its current area. The attached plan (Attachment 3) shows the relative size of the existing centres to the footprint of that proposed at the airport town centre. It is noted that the existing centres' footprints include retail as well as other business land areas.

As background for the airport centre we gave consideration to the extent of areas required (see Attachment 4 sketches) and we have estimated on the basis of:

- 4500m^2 supermarket (similar to Kilbirnie 'Pak and Save' at 1.2 ha with car parks). We note that supermarket rule of thumb 4500m^2 per 10,000 pop. catchment and this southern suburbs area has a catchment of some 26,350 people (including airport new population) so with only 1 Pak and Save room for another of this company's type in the market – possibly higher end Countdown for example
- 18,000m^2 for retail and service type commercial (Property Economics projects 23,000m^2 for Kilbirnie) which we assume could include a plant/garden centre (popular in growth areas, paint shop, video shop etc)
- 1500m^2 for café/restaurants which are poorly provided for in Kilbirnie area currently – these could also locate as part of mixed use (ie residential on top) in coastal areas - we have made no allocation for this
- 1000m^2 for health centre
- 1500m^2 for cinema– this is similar to Penthouse size in Brooklyn (none in Kilbirnie, small one in Miramar)
- 1500m^2 commercial and small office (ie banks, real estate)
- 1000m^2 service station

- 3ha total floor area +
- 4ha allowance for surface car parking + associated circulation and amenity areas for public space etc
- 5000m^2 public square
- 7.5ha total

5. Business Park

We note that the BARNZ response includes no provision for the business park type or campus/educational land. There are no known Wellington precedents for this type of development - a campus type business environment and thus seeking market information is not possible. The nearest similar type in terms of the quality of the physical environment is Highbrook in Auckland, although this is on a much larger scale and is located differently in the transport network.

Despite the lack of precedents, we note that within Wellington city there is a shortage of flat land and very little that is not already being utilised (less than 2.2% of the industrial land has a site coverage of less than 25% - ie conceivably empty). New large flat sites have only been able to be created - such as at Tawa recently – by extensive earthworks given the lack of vacant, unencumbered flat land elsewhere in the city.

In terms of the type of activity that would be attracted to the airport land we note that Weta Studios have recently completed a studio development (3.3ha at Stone Street in Miramar) and we have transposed this within the business park area to show the relative scale (see Attachment 5). Although this development is completed it indicates potential for future demand – either associated with the film making business or some alternative and possibly ancillary business type.

We have also reviewed the likely education demand from the development of the subject site and the area generally and note that the need for an additional primary school given the current distribution and decile of schools provided in the area (refer to Attachment 6). We note that when the Fort Dorset site was redeveloped the Ministry of Education secured part of this land to provide for a new primary school. A new school could be located within either the town centre area, or business campus area shown the master plan. We would nominally allocate an area of 2 ha for a primary school (Seatoun School by comparison is 2.7 ha) if there was a need for one.

6. Costs/development contributions

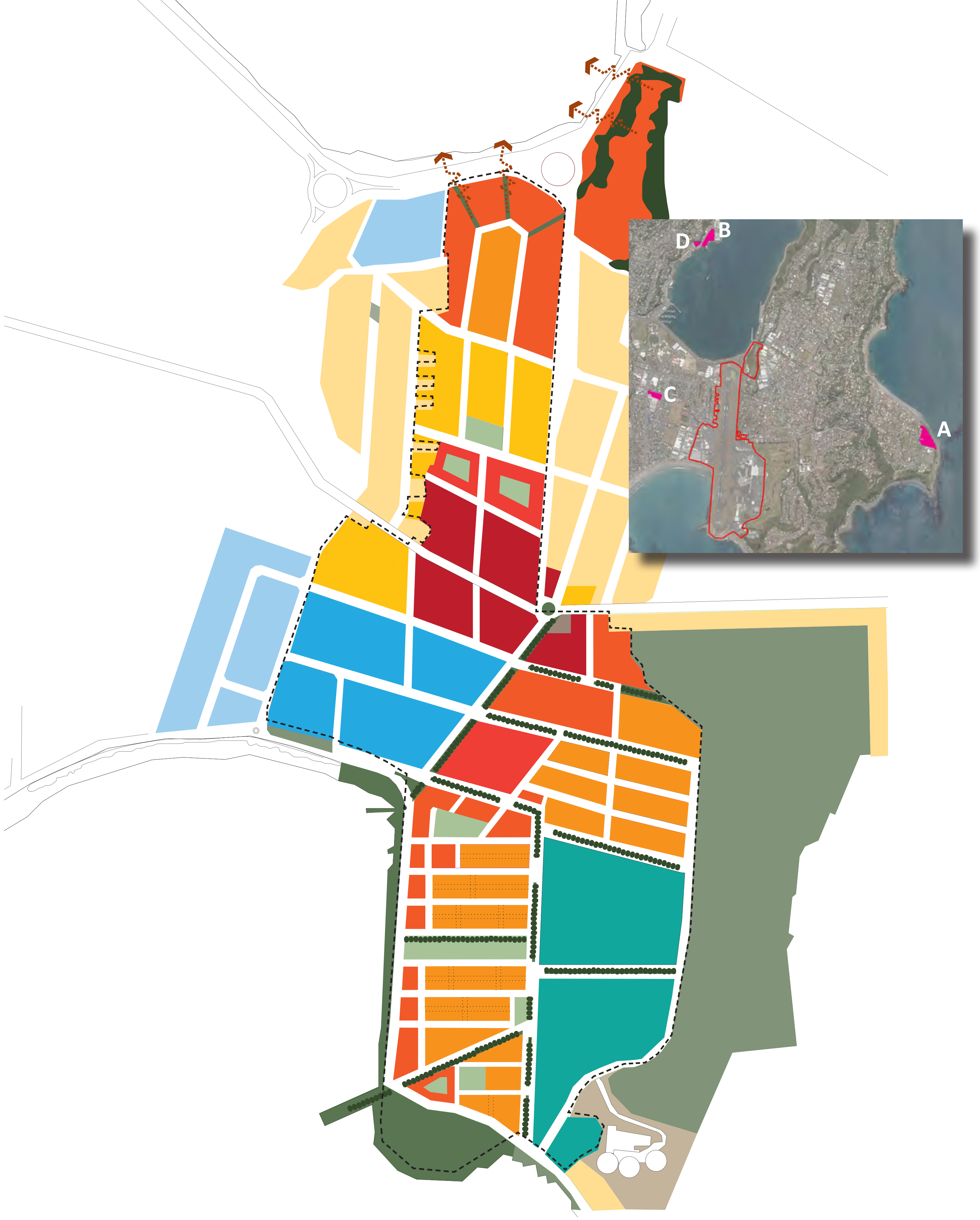
<u>Development Levies</u>
These are actually known now as 'Development Contributions' which for the subject area would be $6044 per new residential unit. For non-residential development associated there is a contribution of $6044 per 65$m^2$ gross floor area. We note that there are reductions that can apply such as for one bedrooms and where common spaces are provided for example - we have not included any consideration of these given the level of detail at this stage.

The contributions are linked to subdivision/landuse consent applications (under the Resource Management Act and building consent applications (under the Building Act). Wellington City Council typically calculates the value at the time of building consents as this is when the specifics of the project are known. At the time of subdivision there is less certainty. It is also this Council's policy to calculate and require the contribution be paid once the development is done and code completion certificates are being issued as this assists with spreading the development costs and, as noted above, is when the specific details and the various reductions can be acknowledged.

For the subject master plan the residential components can be approximated from the master plan as (1460 res units) $8,824,240, although this does not allow reductions to be factored in. For the non-residential development it will not be practicable to estimate costs until there is an actual development footprint and the floor areas can be determined. As noted above, this would normally be done and paid at the time of the development building consent and code compliance certification.

7. Concluding Comment

In considering the land use plan in relation to the PAL and Market Economic reports we maintain that the highest and best use for the subject airport area is in the nature of the proposal we have outlined. In urban planning terms the highest and best use for this area is not considered to be a continuation of the standard forms and patterns of use that have traditionally been provided for within this part of city. We have assumed the same approach taken Council's planners in their strategic objectives of creating a more efficient and compact urban form for the city that provides a range of dwelling types around amenities and other services within locations well connected to public transport routes as a more sustainable and so highest and best use for the site.



A Fort Dorset, Townhouses, Seatoun

B Greta Point, Apartments, Evans Bay Parade

C Rita Angus, Coutts Street Kilbirnie

D Patent 326, Apartments, Evans Bay Parade

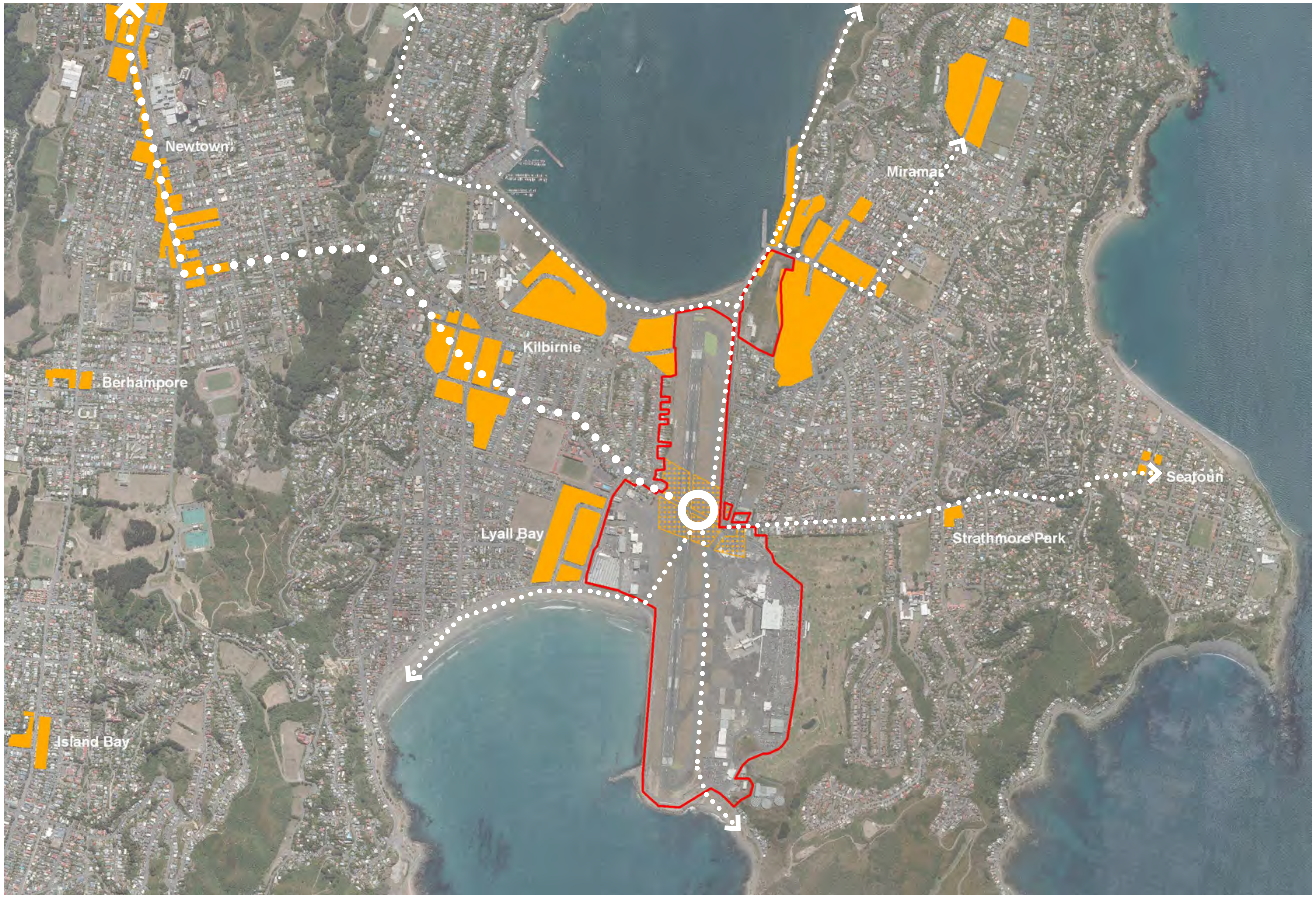
ATTACHMENT 1 existing development precedents within area shown as (approx) scaled comparisons

WIAL MASTERPLANNING FUTURE LAND USE OPTIONS

ABOVE: Photos of existing main street - Bay Road, Kilbirnie

ABOVE: Images of proposed scale of redevelopment in Kilbirnie

ATTACHMENT 2 Proposed Kilbirnie Centre Revitalisation
Source WCC Kilbirnie Town Centre Revitalisation Plan
August 2010



surburban centre areas

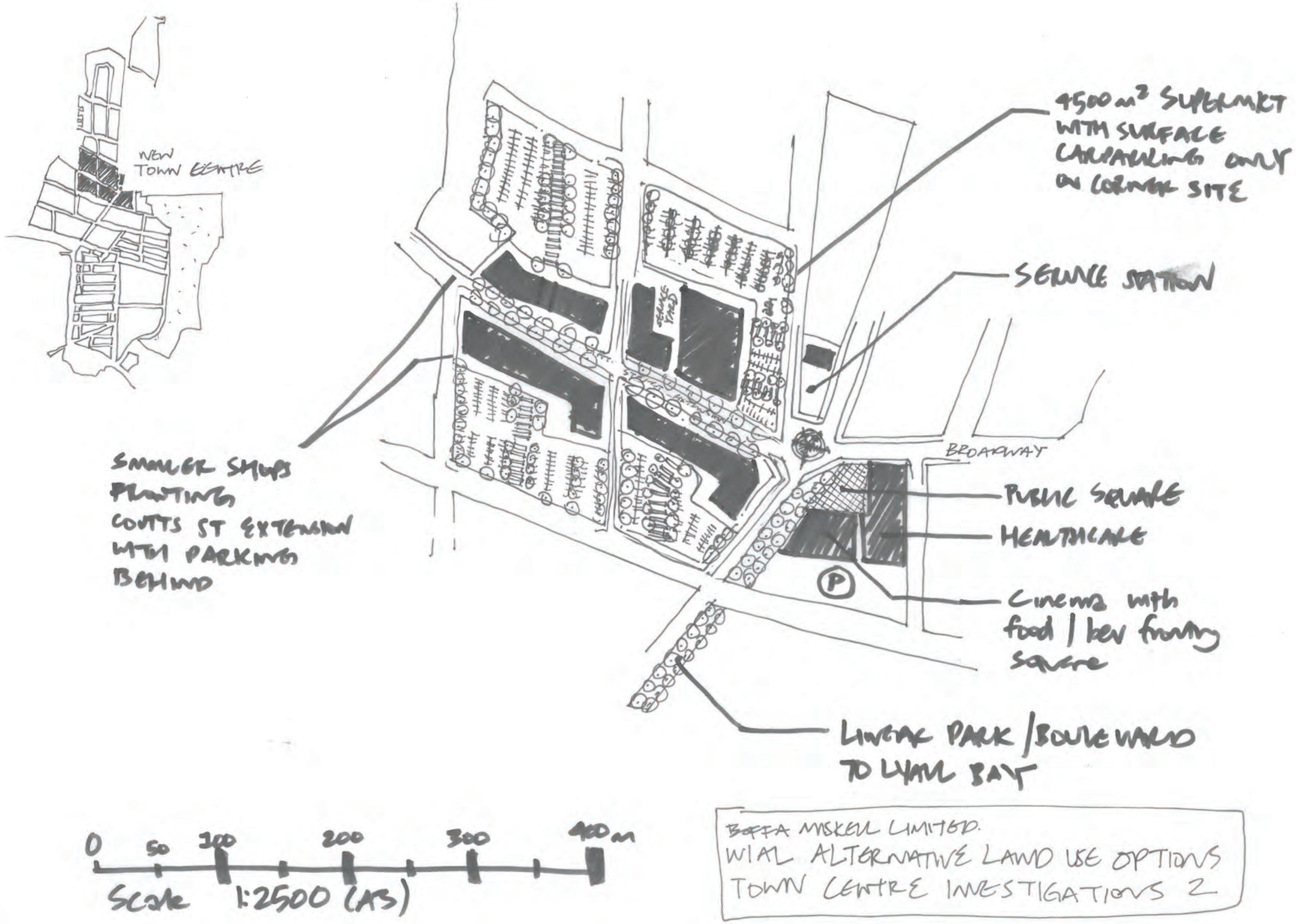
spine and latereral routes

WIAL MASTERPLANNING FUTURE LAND USE OPTIONS

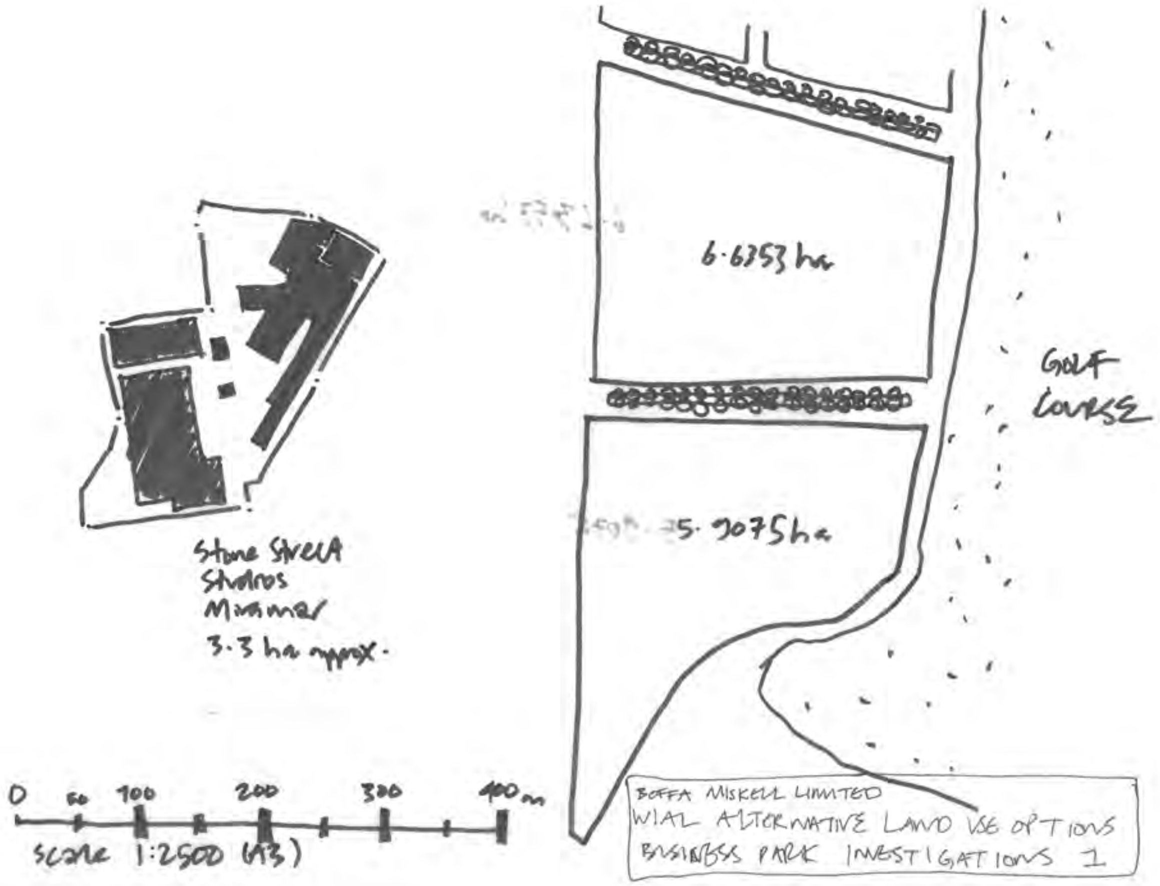
Prepared for Wellington International Airport Limited by Boffa Miskell Limited

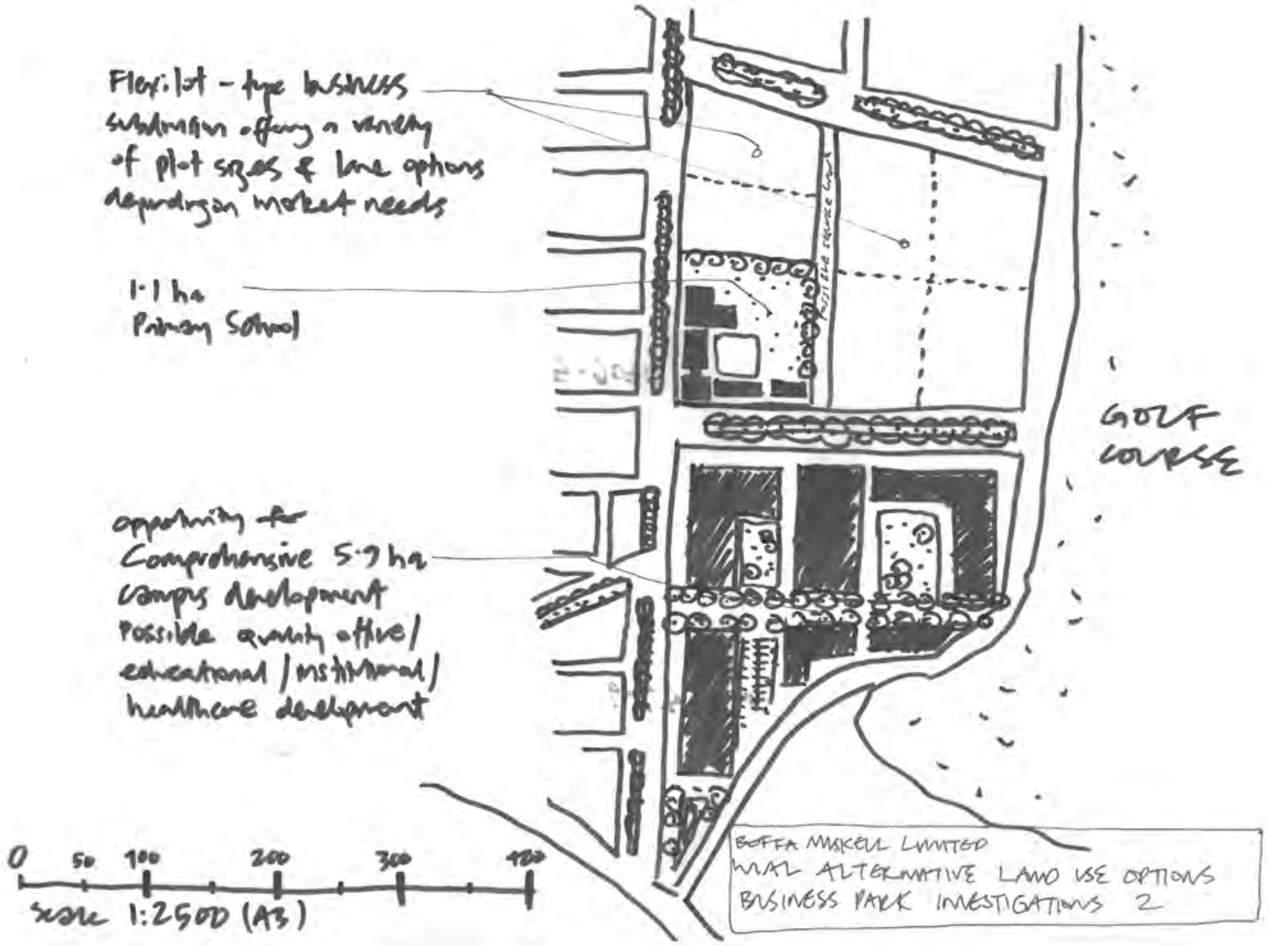
October 2011 | Memo Attachments | Reference: W11006 | Contact: marc.baily@boffamiskell.co.nz

Boffa Miskell
www.boffamiskell.co.nz



ATTACHMENT 4 Town Centre Configuration Option





ATTACHMENT 5 Business Park Configuration Option

school name	roll	decile
lyall bay	406	7
miramar sth	114	2
holy cross	257	not known
miramar central	276	6
miramar nth	246	8
miramar christian	66	7
worser bay	150	10
seatoun	402	10
stathmore park	40	2
te kura kaupapa	not known	
st anthonys	not known	

ATTACHMENT 6 Existing Primary School distribution

TelferYoung
Valuers Property Advisors

Response to Property Advisory Limited - MVAU

Wellington International Airport

Date: 15 November 2011

Client: Wellington International Airport Limited

TelferYoung (Canterbury) Limited

TelferYoung
Valuers Property Advisors

15 November 2011

TelferYoung
Canterbury

The Chief Financial Officer
Wellington International Airport
P O Box 14175
WELLINGTON 6241

Attention: Mr Martin Harrington

Dear Martin

Re: Property Advisory Limited - MVAU Land Valuation

1.0 Introduction

We have been provided with a copy of the Property Advisory Limited (PAL) Market Value Alternative Use (MVAU) report dated 10 October 2011 addressed to the Board of Airline Representatives of New Zealand establishing an MVAU Land Value effective July 2011.

2.0 Our Instructions

We are requested to provide you with comments of the MVAU valuation prepared by PAL.

TelferYoung (Canterbury) Limited
Level One, Beatson House, 245 Blenheim Road, PO Box 2532, Christchurch, New Zealand
Telephone: +64 3 343 1060 Facsimile: +64 3 343 1209
Email: telferyoung@telferyoung.com website: www.telferyoung.com
+ Chris Stanley + John Tappenden + Mark Beatson + Mark Dunbar + Victoria Murdoch

3.0 Summary of Key Inputs

A summary of the key inputs to the valuation models adopted by PAL and TelferYoung (TY) are summarised in the following table:

Comparison of Key Inputs		
Item	**PAL**	**TY**
Shopping Centre Land Value	$1000/m^2$	$1000/m^2$
Office Park	-	$650/m^2$
Bulk Retail	$750/m^2$	$650/m^2$
Retirement	-	$535/m^2$
Residential Apartments	$680/m^2$	$535/m^2$
Townhouses	$540/m^2$	$535/m^2$
Detached Residential	$450/m^2$	$500/m^2$
Shopping Centre Absorption	1.43ha pa	1.02ha pa
Bulk Retail	1.43ha pa	1.02ha pa
Apartments	0.24ha pa	2.74ha pa
Townhouse Absorption	1.73ha pa	2.20ha pa
Detached Residential	4.10ha pa	1.10ha pa
Average Commercial Land Value	$821/m^2$	$742/m^2$
Average Residential Land Value	$483/m^2$	$530/m^2$
Overall Average	**$515/m^2$**	**$608/m^2$**
Sales Costs	$7.54 m	$16.59 m
Legal Fees	$1.85 m	$0.68 m
Marketing	$3.77 m	$1.35 m
Total Sales/Legal/Marketing	$13.17 m	$18.62 m
Realisation Period	11 yrs	7 yrs
Value/Cost Escalation	3.5%	0
Discount Rate	27%	25%

Both valuers adopted very similar land value rates for the individual property components. The valuers have adopted a differing mix of uses based upon expert advice in terms of master planning for the site.

PAL have adopted a higher absorption rate for the bulk retail and a significantly higher absorption rate for the detached residential.

TY have adopted a higher level of sales and marketing costs than PAL.

PAL have adopted a higher discount rate of 27% compared to TY at 25%. This is offset by the fact that PAL have adopted an appreciating value and cost model whereas TY have made no allowance for value growth or cost inflation. Adjusting for this fact would result in a very similar discount rate.

In summary the land value rates adopted by the valuer are very similar as are the costs of sale and discount rate. The principle difference relates to the realisation period which reflects the mix of uses under each development plan.

A more detailed analysis follows.

4.0 Land Area

PAL have adopted a gross land area of 103.2 hectares and a net land area of 73.2 hectares. TY have adopted the same gross area and a slightly smaller net area of 72.6 hectares.

5.0 Methodology

PAL state the valuation has been prepared in accordance with the Commerce Commission Definition relative to Specified Airport Services Input Methodologies.

PAL makes specific reference to Schedule 8 of this decision which sets out mandatory requirements for a valuer to apply when undertaking a valuation of land held by an airport for Specified Airport Purposes.

PAL state that they have *"... therefore used the hypothetical subdivision analysis and discounted cashflow approach as the primary method to assess the MVAU value of WIAL land"*. In fact the DCF approach is the only methodology utilised.

PAL have not undertaken a traditional hypothetical subdivision analysis. PAL have not undertaken a land valuation on a comparable sales/zonal basis. The only valuation approach adopted has been a DCF.

There has been no "stress testing" of the DCF conclusion against market transactions.

6.0 Highest and Best Alternative Use (HBAU)

Zomac Planning Solutions (ZPS) and Market Economics Ltd (ME) have assisted PAL in establishing the HBAU.

ZPS has arrived at the following land use allocation.

Use	Area
Town Centre	2.0 hectares
Large Format Retail	5.0 hectares
Medium Density Residential Apartments	2.0 hectares
Medium Density Residential Townhouses	19.0 hectares
Detached Family Housing	45.2 hectares
Headland Park	5.0 hectares
Neighbourhood Open Space	5.0 hectares
Roads	20.0 hectares
Total	**103.2 hectares**

The net utilisable land area equates to **73.2 hectares.**

The comparison between the ZPS and Boffa Miskell (BM) allocations are as follows:

Use	ZPS Areas	BM Areas
Shopping Centre	2.00 hectares	7.12 hectares
Office Park		12.79 hectares
Bulk Retail	5.00 hectares	7.14 hectares
Retirement		4.38 hectares
Residential Apartments	2.00 hectares	19.18 hectares
Residential Townhouses	19.00 hectares	15.37 hectares
Detached Residential	45.20 hectares	6.67 hectares
Total	**73.20 hectares**	**72.65 hectares**

The major difference is the allocation between commercial and residential. ZPS have allocated 7.00 hectares for commercial as opposed to BM at 27.05 hectares.

With the residential component ZPS have allocated 66.20 hectares with BM 45.60 hectares.

The bulk of the ZPS residential development is for low density detached residential housing of 45.20 hectares.

The ZPS HBAU provides 1824 residential units and 30 commercial sites.

In our opinion the ZPS option significantly understates the potential for commercial development in all forms at Wellington Airport and unduly focuses on low density, low value, residential development.

The MB Master Plan reflects the Wellington City Council's expectation for growth in the Kilbirnie area. In relation to residential growth the Council consider the majority of future demand will be for townhouses and apartments, not single unit residential. From a commercial perspective the BM plan reflects the Councils plan for the revitalisation of the Kilbirnie area.

7.0 Gross Realisation

PAL have established individual section values as follows:

Land Use	Section Value	$\$/m^2$
Town Centre	$1,000,000	$1,000
Large Format Retail	$3,750,000	$750
Medium Density Apartments	$85,000	$680
Medium Density Townhouses	$135,000	$540
Detached Family Housing	$225,000	$450

Comparison between the PAL and TelferYoung (TY) approach is summarised as follows:

Land Use	Section Size PAL	Section Size TY	$\$/m^2$ PAL	$\$/m^2$ TY
Town Centre	$1000m^2$	$1000m^2$	$\$1000/m^2$	$\$1000/m^2$
Large Format Retail	$5000m^2$	$5000m^2$	$\$750/m^2$	$\$650/m^2$
Medium Density Apartments	$125m^2$	$1000m^2$	$\$680/m^2$	$\$535/m^2$
Medium Density Townhouses	$250m^2$	$1000m^2$	$\$540/m^2$	$\$535/m^2$
Detached Family Housing	$500m^2$	$500m^2$	$\$450/m^2$	$\$500/m^2$

PAL have adopted identical land areas to TY for the town centre, large format retail and low density residential.

The land value rates adopted by PAL are identical for the town centre, higher for the bulk retail, higher for the residential apartments, very similar for the townhouses and 10% lower for the detached residential.

8.0 Land Value Inflation

PAL have adopted an escalating DCF model providing for land value growth of 3.5% per annum which is stated as being "conservative" across all land classes.

By PAL's own analysis the average land appreciation in Wellington has been as follows:

+ 5 year average	10.30%
+ 10 year average	12.24%
+ 15 year average	9.67%

The adopted appreciation rate is less than a third of the 10 year average.

9.0 Realisation Period

PAL note that due to the unique nature of the location it is "... *difficult to predict market demand/absorption of town centre, large format retail and residential allotments*".

PAL have stated a 7 year sell down period for the town centre and large format retail uses, however this is contradicted in the DCF worksheet where a shorter realisation period is adopted.

ZPS have allocated 7 hectares to these two areas. The sell down period equates to 1 hectare per annum. In our opinion this significantly understates the demand that would exist for this use having regard to the strategic advantages the property enjoys and the likelihood that a developer would seek to obtain cash flow from the property as early as possible.

In relation to the residential component the adopted realisation period of 11 years is equivalent of 6 hectares per annum for a total of 66.2 hectares. By comparison the TY model allows for 45.6 hectares of residential land with the absorption over 7 years being 6.5 hectares per annum.

This is very similar absorption rate having regard to the fact the TY model allows for a retirement/elderly person housing of 4.38 hectares which would be absorbed far earlier in the development time-line.

10.0 Construction Costs

PAL refer to costings supplied by Ryder Levett Bucknall (RLB) providing development costings for the commercial BM plan. RLB have reportedly calculated construction costs at \$94m including a 10% contingency.

PAL have allowed for construction cost escalation at 3.5% per annum.

A review of development costs has been undertaken by Opus and they have been established at \$83.57m.

11.0 Resource Management Costs

PAL have allowed for \$2 million to obtain resource consent. Opus have allowed \$2.1m.

12.0 Marketing/Legal Costs

PAL have adopted selling costs, including marketing costs, equivalent to 3.00% of the gross realisation. TY adopted 3.75% plus marketing.

PAL have allowed legal costs of \$1,000 per site which is identical to TY. The difference in total reflects the greater number of residential sections in the PAL model.

13.0 Management

PAL have allowed project management at \$250,000 per annum. TY allowed \$120,000 per annum.

14.0 Development Contributions

PAL have allowed development contributions at \$16,023,700. This is based upon \$6,951 per residential dwelling allotment and \$86/m^2 for retail space.

BM have reviewed the residential development contributions and have calculated these at \$8,824,240. From this a deduction has been made for reserve development costs which are included in the Opus construction cost. A deduction of \$2,604,604 has been made to give a net development contribution of \$6,219,636. The allowance for \$86/m^2 for commercial space is not considered to be a land development cost. This is effectively a building levy.

15.0 Local Authority Rates

PAL adopted \$1,500,000 per annum. This is identical to TY.

16.0 Sea Wall

PAL have stated that the estimated maintenance cost for the sea wall is $300,000 per annum for the next 10 years. PAL have allowed a capitalised charge of $5,000,000.

As this land would be vested in the Wellington City Council as a reserve, we do not believe it is appropriate to make allowance for a sea wall protection in the cashflow budget.

17.0 Discount Rate

PAL undertake a relatively brief discussion of the discount rate selection and state that their analysis of transactions suggest a range of between 10% and 40% and have adopted **27%.** This is based on an appreciated value/cost model.

This compares with the TY return of **25%** which is the exact midpoint of the range suggested by PAL based on a non-appreciating model.

Adjusting for the escalating cost and value model adopted by PAL would result in a very similar discount rate to TY.

18.0 Attachment 3 - Adopted Realisations

Table 9, Page 53 of the PAL report shows the adopted block realisation. The summary table shows the following land value rates.

Town Centre:	$1000/m^2$
Large Format Retail:	$750/m^2$
Medium Density Apartments:	$650/m^2$
Medium Density Residential Townhouses:	$560/m^2$
Detached Family Housing:	$450/m^2$

There are errors in the table. The land areas and land values shown by PAL should be **$680/m^2$** for medium density residential apartments and **$540/m^2$** for medium density residential townhouses.

19.0 Appendix 4 - Detailed Valuation Worksheets

The detailed worksheets are very difficult to read. The MVAU DCF valuation summary is in six monthly periods rather than a month by month analysis.

The spreadsheets summaries conflict with the information in the body of the report where sell down for the retail town centre and large format retail land uses is stated as being 7 years. The DCF spreadsheet showed sales for the shopping centre would be concluded by July 2017 which is a 6 year realisation and large format retail by July 2015, a 4 year realisation.

20.0 Value Reconciliation

The Commerce Commission Determination require the value to *"Reconcile the results of the valuation approaches used and determine a final value for the HBAU"*.

PAL have only utilised one approach, the DCF Hypothetical Subdivision Approach. There has been no "check" methodology adopted to "stress test" the adopted value of $98 million notwithstanding the comment (Page 9, Para 36) that *"... discounted cashflow approach as the primary method to assess the MVAU value of the WIA land"*.

It is difficult to reconcile the outcome of the PAL DCF with the sales evidence quoted, particularly for the commercial component.

On page 51, Para 24, PAL refer to a sale at 194 Adelaide of $8,250,000 for 5151m^2 ($160/m^2), and Page 52, Para 30 a sale at 36 - 54 Kingsford Smith of $8,000,000 for 10250m^2 ($750/m^2).

The DCF shows the following:

Use	Area	Gross Value	$/m^2	NPV	$/m^2
Town Centre	20,000m^2	$20,000,000	$1000/m^2	$4,780,000	$239/m^2
Bulk Retail	40,000m^2	$37,500,000	$750/m^2	$8,713,000	$174/m^2

The assessed value for 50,000m^2 of net bulk retail land of $8,713,000 is only marginally greater than the price band for 10,250m^2 of leasehold land in the sale quoted in Kingsford Smith Street. Land value rates of $174/m^2 and $239/m^2 are inconsistent with the commercial land sales quoted.

21.0 Summary

Item	PAL	TY
Commercial Area	70,000m^2 (10%)	27,0517m^2 (37%)
Residential Area	662,000m^2 (90%)	45,6048m^2 (63%)
Commercial Value	$57.5m ($821/m^2)	$200.7m ($742/m^2)
Residential Value	$319.6m ($483/m^2)	$241.6m ($530/m^2)
Gross Realisation	$377.1m ($515/m^2)	$442.4m ($609/m^2)
Costs	$133.8m	$119.7m
Realisation Period	11 years	7 years
Discount Rate	27%	25%
Block Value	$98m	$141m
Hectare Rate	$949,612	$1,356,648
Square Metre Rate	**$95**	**$136**

The major variations between the valuations fall into 3 categories as follows:

(i) **Form of Development**
The TY valuation is based upon the BM Master Plan which reflects the Wellington City Council's prediction for the type of residential growth in this area and the focus on the revitalisation of the Kilbirnie commercial area.

The BM plan provides for a larger area of commercial development than the ZPS proposal and more medium density residential housing.

(ii) **Realisation Period**
TY have adopted a 7 year realisation period with PAL 11 years. Similar absorption rates have been adopted for each use type however due to the large component of low density residential use in the ZPS plan a longer overall absorption period has been utilised by PAL.

(iii) **Development Costs**
TY have adopted development costs based upon expert advice from Opus. These costs are less than the costings provided to PAL by RLB.

The other differences are simply subjective valuer judgment's for items such as sales costs and land values for specific uses.

TY have adopted sales costs $5.44 million greater than PAL.

In terms of land values comparison on an average rate per square metre is as follows:

Use	PAL $/m^2	TY $/m^2
Commercial	$821/m^2	$742/m^2
Residential	$483/m^2	$530/m^2
Overall	**$515/m^2**	**$609/m^2**

In summary the principle difference in the valuations relates to the mix of uses under each development plan. This impacts on the gross realisation and realisation period which flows through to the adopted block land value.

We trust these comments meet your requirements.

Yours faithfully
TelferYoung (Canterbury) Limited

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