

# Airport Land Valuation

Prepared for

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BARNZ

**Authorship**

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## Executive Summary

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1. There has been common agreement for over five years between the Commission and interested parties that airport land should be valued for regulatory purposes on the basis of its opportunity cost, which depends on its highest and best alternative use ('HBAU'). The opportunity cost of the land is the net value an airport company would receive if the land was converted to its HBAU rather than held for aeronautical use. To estimate the opportunity cost it is necessary to deduct any rezoning costs that would arise during the conversion to the HBAU.
2. Although the Commerce Commission clearly advocated this opportunity cost approach in its 2010 "reasons paper" which underpins the regulatory regime, it has been claimed that the input methodologies ('IM') for airport regulation are insufficiently clear on this point and that proper adherence to the opportunity cost concept would lead to under-investment by airports in extra aeronautical land. The Commission has responded to those claims by proposing changes to the IM.

### *Opportunity Cost*

3. This analysis begins by discussing the concept of opportunity cost, including the fact that opportunity costs must be assessed in the context of a choice and from the perspective of the chooser. In this case the airport is the decider and all costs and benefits it would experience consequent upon a decision to buy or sell land are relevant.
4. The Commission's proposal is inconsistent with the opportunity cost concept because it allows and indeed encourages valuers to pretend that the current land zoning is a different zoning. This allows costs that the airport would incur if it sold land to be readily excluded from the valuation, which is consequently not an opportunity cost valuation.

### *Problem Definition*

5. There are reasonable grounds to doubt that the problems cited by the Commission are real or material. The suggestion of ambiguity in the IM is challenged by quite clear directions given in Schedule A and also by the clear endorsement of opportunity cost in the 2010 Reasons paper.
6. Any lack of incentive for efficient investment in new land is limited to situations where airports want to pay a premium in excess of the normal market value of the land. There are scale-related reasons why this could occur, but the problem is nevertheless confined to new acquisitions rather than the pre-existing land held by an airport.
7. The IM regime is founded on balanced objectives. For example, s52A seeks to limit excessive profits *and* provide efficient investment incentives. In this context the fact that the Commission's proposal would lead to write-ups in the value of all aeronautical land at regulated airports is a concern.

### *Alternative Approach*

8. Notwithstanding the above concerns about whether the cited problems are material, there might be situations in which it is efficient for an airport to pay a modest premium for land. Efficient incentives for such conduct could be readily provided by allowing airports to book the premium as a specialised asset. This is the approach already used in the IM for investments in converting existing land holdings to aeronautical use.

### *Assessment Against Purpose Statements*

9. Compared with the Commission's proposal, this alternative approach has several main advantages:
  - a. It addresses the perceived investment incentive problem directly without inflating the value of all pre-existing holdings of aeronautical land; and
  - b. It remains true to the opportunity cost concept which is a crucial point of common agreement; and
  - c. It avoids the ambiguity and uncertainty created in the Commission's proposal to offer valuers a menu of three starting assumptions.
10. These advantages are relevant to the purpose statements in Part 4 of the Commerce Act. In comparing the Commission's proposal with the alternative approach it is important to note that both are fully effective in addressing the investment incentive concern that has been identified. However the alternative approach is materially better than the Commission's proposal because it
  - a. Limits excessive profit taking as required by s52A(d);
  - b. Provides more certainty as required by s52R; and
  - c. Better allows interested persons to assess the success of the regime as required by s53A.
11. For the above reasons, which are supported by the detailed analysis in the body of this report, I consider that the alternative approach is materially better in all relevant respects than the Commission's proposal.

# 1 Introduction

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12. In a recent draft decision on land valuation at airports, the New Zealand Commerce Commission ('the Commission') proposes to amend the current input methodology ('IM').<sup>1</sup> The amendment concerns the way land zoning is to be treated by valuers for the purpose of the information disclosure regime to which airports are subject.
13. This report was requested by BARNZ but contains the author's own analysis and views. It builds on an earlier note I have supplied on this topic.<sup>2</sup>
14. The Commission is proceeding on the basis that it should only change "*those aspects of the current IMs that would*
  - a. *Promote the Part 4 purpose in s52A of the Act more effectively;*
  - b. *Promote the purpose in s52R of the act more effectively, without detrimentally affecting the promotion of the s52A purpose; or*
  - c. *Significantly reduce compliance costs, other regulatory costs or complexity, without detrimentally affecting the promotion of the s52A purpose.*"<sup>3</sup>
15. While I agree with this guidance it is worth noting that it applies to the entire process of IM review, whereas airports are subject only to information disclosure. Since the Act includes a separate purpose statement for information disclosure regulation in s53A, it seems appropriate for the purpose of considering land valuation at airports to extend the above guidance to include promoting that s53A purpose more effectively.
16. The Commission's draft decision is that the "zoning starting assumption for MVAU valuation should be the zoning prior to it being zoned an airport, the current permissible use, or a use consistent with the surrounding area". Two of these options exclude the actual current zoning of the land. There is also a question over whether allowing three alternative starting assumptions is consistent with the s53A purpose of ensuring "*that sufficient information is readily available to interested persons to assess whether the purpose of this Part is being met*".
17. To examine these issues it is helpful to start by discussing the concept of opportunity cost and its purpose in this particular application (section 2). This is followed in section 0 by an analysis of the problems cited by the Commission and development of an alternative approach for resolving them. Finally, the Commission's proposal and the alternative approach are assessed against the relevant purpose statements from the Act in section 4.

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<sup>1</sup> Commerce Commission, Input methodologies review, Fast track of review of input methodologies for the application of airport land valuation methodology, Draft decision, 10 November 2015.

<sup>2</sup> John Small, MVAU and Zoning, 13 October 2015.

<sup>3</sup> Commerce Commission at 1.3

## 2 Opportunity Cost

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18. There are many definitions of the term “opportunity cost” available in elementary economics textbooks. However challenges nevertheless arise in applying that term in practice, as this question of airport zoning illustrates. In addressing such challenges it is helpful at the outset to gain as much clarity as possible over the meaning of the term opportunity cost.
19. The most important point is that opportunity cost only exists in the context of a decision or choice and cannot be properly evaluated without reference to that choice. In the words of Nobel Laureate James Buchanan:<sup>4</sup>

*Opportunity cost is the anticipated value of ‘that which might be’ if choice were made differently. Note that it is not the value of ‘that which might have been’ without the qualifying reference to choice.*

20. This linkage between opportunity cost and choice is implicit in the Commission’s definition of opportunity cost (at ¶2.10) as “the benefit that could be gained from an alternative use of the same resource” because, in applying this definition, we accept that a choice has been made not to pursue the “alternative use”. Nevertheless, it is worth reminding ourselves that several things flow directly from the requirement that all opportunity costs be linked to a choice. In particular:
- a. We need to identify a chooser;
  - b. We need to identify a choice; and
  - c. We need to define opportunity cost from the perspective of the chooser.
21. This analysis is necessarily subjective because it is linked to the thought processes, values, and ultimately the decisions of some party. Buchanan puts it this way in his classic book from 1969:<sup>5</sup>

*Cost is that which the decision-taker sacrifices or gives up when he makes a choice. It consists in his own evaluation of the enjoyment or utility that he anticipates having to forego as a result of selection among alternative courses of action.*

22. Again there is implicit recognition of these points in the Commission’s draft decision (at ¶2.9) where it says that “the cost of continuing to hold onto land acquired in the past is measured by the opportunity cost that the airport incurs today by using the land to supply specified airport services”. In particular this passage identifies a chooser (“the airport”) and a choice (“using the land to supply specified airport services”) and it defines cost from the perspective of the chooser (“the cost that the airport incurs”).

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<sup>4</sup> James M. Buchanan, Opportunity Cost, The New Palgrave Dictionary of Economics, Second Edition, 2008 Edited by Steven N. Durlauf and Lawrence E. Blume.

<sup>5</sup> James M. Buchanan, Cost and Choice: An Inquiry In Economic Theory, Markham Publishing Company, Chicago, 1969, Chapter 3.

23. I discussed these issues in my previous note on this topic. Despite this, I note that the EY report uncritically repeats the airports' assertion that the "social opportunity cost" is relevant here, implying that the chooser of airport investment is society rather than the airport.

## **2.1 Purpose of Using Opportunity Cost**

24. The use of valuations based on opportunity cost conveniently serves two purposes. One is that statutory purpose of Part 4 as set out in s52A, the stem of which begins "*to promote the long-term benefit of consumers in markets referred to in section 52 by promoting outcomes that are consistent with outcomes produced in competitive markets*".
25. In its 2010 IM reasons paper the Commission concluded (at ¶4.3.2) that "*for land, the valuation approach that is most clearly consistent with promoting outcomes consistent with outcomes produced in workably competitive markets is the opportunity cost concept*" and went on to note that this approach was generally supported by submitters though there was disagreement about precisely how to apply it in practice. I agree with the Commission's conclusion because it is indeed the case that workably competitive markets tend to discover prices that reflect the opportunity costs of market participants. Further detail on this point is provided in section 3.1 below.
26. A second purpose for valuing land at opportunity cost arises from the effect doing so has on incentives airports have to invest efficiently in land. The Commission argues that an opportunity cost valuation is consistent with efficient investment incentives, which would therefore also assist with s52A(a) which requires that regulated firms "*have incentives to innovate and to invest, including in replacement, upgraded, and new assets*".
27. In summary, it is widely agreed that airport land should be valued at opportunity cost and that this is consistent with the purpose of Part 4 regulation.

## **2.2 Defining Opportunity Cost In This Case**

28. Bearing in mind the essential components of an opportunity cost calculation (see ¶20 above) let us now identify the choice that is relevant to defining the opportunity cost of airport land. Airports are choosing between retaining land in airport use or converting it to an alternative use.
29. The latter option may or may not include selling the land. That is irrelevant for valuation because what matters is the total value the airport would receive if the land is converted. That total value could either be realised through a single transaction (sale to another person), a series of transactions (sale to a number of purchasers over an optimal time), or through a flow of future revenues with the same expected capital value (if the airport continues to own the land while it is in the alternative use).
30. It should also be clear that the actual airport company is making the choice (it is the chooser in ¶20a above) and that we should evaluate it from that company's perspective (¶20c above).



31. From the airport company's perspective, the starting point for land zoning is the actual current zoning of the land. If the land is not converted to an alternative use, this actual current zoning will remain in place. However if the land is converted to an alternative use then the current zoning will, in all likelihood, need to be changed. Any costs associated with changing the zoning status of the land will ultimately be borne by the airport company.<sup>6</sup>
32. There is no ambiguity about this conclusion. If we are to value land at its opportunity cost then we need to deduct any costs of converting it so that it can achieve the best alternative use from the total value of the land in that alternative use. In the case of zoning, that means we must start with the current zoning, whatever that is.

### **2.3 Is the Proposal Consistent with Opportunity Cost?**

33. The Commission outlines its proposed treatment of re-zoning costs at paragraphs 2.16 – 2.24 of its draft decision. It proposes a menu of three different options from which the valuer can choose an initial zoning assumption "*because it is not always clear what the zoning would be if it was **not** zoned for airport use*" (emphasis added).
34. This approach is very clearly inconsistent with an opportunity cost valuation because it is inconsistent with the way a commercially focused business would assess the business case for conversion of land to an alternative use. When contemplating such a change an airport company would, if it is acting akin to a commercially focused business in a competitive market, in fact start with the actual current zoning status of the land. From that point it will examine the costs of conversion and compare them with the expected revenues.
35. If executives of such an airport company were considering presenting a proposal for land conversion to their board, they would include any costs of changing the current zoning in their analysis. If directors of such an airport company received a proposal that did not include any necessary rezoning costs they would reject it as incomplete. Thus, if we respect the opportunity cost concept by standing in the shoes of the decision maker it is clear that rezoning costs need to start from the actual current zoning.
36. Although this correct approach is one of the three menu options proposed, the Commission's discussion of this option indicates an expectation that it will only be used in the most trivial of cases. In particular, the Commission (at ¶2.21) seeks to limit the relevance of the correct opportunity cost approach to situations where no zoning change is required because "*the land may already permit the HBAU*". In other words, the Commission is proposing that only when there are no rezoning costs should the correct starting assumption be used.

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<sup>6</sup> Note the difference between what the tax economics literature refers to as 'liability' and 'incidence'. Applied to this situation, liability refers to who actually writes the cheque for rezoning while incidence refers to whose net value is reduced by the size of that cheque. Airport companies would bear the cost of rezoning even if they sold the land to a developer who then paid for the rezoning because the sale price would reflect the expected cost of rezoning.

37. I conclude that the proposed approach is most definitely not consistent with the concept of opportunity cost. As such, it stands in stark contrast to the Commission's previous endorsement of that concept in its 2010 IM reasons paper and in contrast to the broad support for opportunity cost as a land valuation concept which the Commission has also previously acknowledged.

### 3 Alternatives to the Proposal

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38. Insofar as it relates to zoning, the Commission's draft decision document appears to be targeted at two problems. One is the view that the existing IM creates ambiguity<sup>7</sup> and the second is a concern that airports might not have strong enough incentives to invest in the acquisition of new land for aeronautical purposes.
39. Before we examine the Commission's proposal against the statutory purpose statements (see section 58 below) it will be useful to examine these problems closely and consider whether there are any alternative options that should be considered to address them.
40. It seems clear that the two suggested problems: ambiguity and inefficiently weak investment incentives both relate to the same issue which is how to incorporate rezoning costs in an opportunity cost (HBAU) valuation. This is evident in the Commission's proposal: to the extent that providing a menu of three alternative assumptions resolves ambiguity the Commission's proposal does so with the aim of giving airports stronger incentives to invest in new aeronautical land.
41. For this reason it seems most useful to focus on the investment incentive issue first, and then consider whether and how ambiguity should be reduced.
42. In this section we
  - a. examine the claimed incentive problem;
  - b. propose a more nuanced problem definition; and
  - c. suggest an alternative method for addressing the problem

#### 3.1 Incentives to invest

43. The Commission seems to believe that airports may under-invest in acquiring new land for aeronautical use because the total cost of acquiring land and converting it to aeronautical use may end up being greater than a correctly applied opportunity cost valuation of the land after the acquisition and conversion has occurred.
44. In theory, there are two ways that outcome could occur.
  - a. an airport could pay the opportunity cost (HBAU) value as the market price of the land but then incur extra costs (including rezoning costs) to convert it to aeronautical use without being able to recover the conversion costs; or
  - b. an airport could pay a premium price above the opportunity cost (HBAU) value of the land and then be unable to earn a return on (or of) that premium.

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<sup>7</sup> See Commerce Commission Draft decision at ¶¶1.12.1, 2.3 and 3.1 and thirteen references to ambiguity in the supporting EY paper

45. The Commission has already recognised the first risk in the IM, which allows costs incurred after the 2009 disclosure year to convert land for use in the supply of specified airport services to be included in the regulatory asset base as a specialised investment.<sup>8</sup> So the incentive problem only applies to new acquisitions of land for which the airport pays in excess of the HBAU value.
46. In a workably competitive market for land, vendors cannot reasonably expect to receive a price materially in excess of the HBAU value. This is the underlying reason we use the concepts of opportunity cost and HBAU in valuing airport land. However the claimed incentive problem is predicated on an above market price being paid. We should therefore consider in more detail how that would occur and to what extent it might occur.
47. Let us briefly recap the land valuation concepts. In competing for extra land an airport only *needs* to offer more than the other bidder with the *second-highest* valuation for the land. This person is by definition a person planning to use the land in its HBAU.<sup>9</sup> It follows that any payment in excess of HBAU should be very modest in workably competitive land markets.
48. While these points apply generally, there are nevertheless scale effects in respect of some airport land acquisitions, These arise because market values tend to be higher (per unit area) for small land parcels whereas in contemplating conversion to its HBAU valuers are instructed to consider selling larger parcels. Consequently, there may well be inefficiently weak incentives in respect of acquiring small land parcels.
49. The scale of this problem is unfortunately apparent in the available material. It is however relevant to evaluating the Commission's proposal because that proposal effectively permits higher values for *all* aeronautical land rather than directly seeking to align incentives for marginal acquisitions.
50. There is also a risk that the Commission's proposal could create incentives for excessive land value inflation at airports. That could occur if regulatory errors or loopholes encouraged airports to deliberately over-pay for land, for example because the WACC was perceived as generous and/or if related party vendors could share in the benefits of over-paying for land.

### **3.2 Problem Definition**

51. The previous section raises serious doubt over whether there is a material problem with weak land investment incentives at airports and points to a different incentive problem that could occur under the Commission's proposal. In this section we set aside that analysis and instead assume that there are indeed situations in which airports might need to be encouraged to pay more than the opportunity cost (HBAU) value for land.

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<sup>8</sup> Commerce Commission, Input Methodologies (Airport Services) Reasons Paper, at ¶4.3.61 – 68.

<sup>9</sup> This is the well-known logic behind second-price auctions as described by William Vickrey, 1961, "Counterspeculation, Auctions, and Competitive Sealed Tenders". The Journal of Finance 16 (1): 8–37

52. The regulatory regime is intended to be a balanced one, aimed (among other things) at offering incentives for efficient investment and at preventing regulated firms from extracting excessive profits. Any premium paid for land will end up flowing through to customers in the form of higher prices and there is a reasonable chance that the allowed WACC will err on the high side, in which case adding un-needed extra capital (e.g. if a premium is not actually needed to secure the land) would lead to excessive profits. Any solution that inflates all aeronautical land, as the Commission's proposal does, will also compromise the objective of limiting excessive profit taking.
53. To capture the balanced nature of the regulatory regime, the following question is suggested as a focal question.

How can we give airports efficient incentives to invest in new aeronautical land while limiting their ability to extract excessive profits?

54. Seen this way, the problem relates to two different types of land:
- a. existing holdings of aeronautical land for which the "incentive to invest" issue is not relevant but the "excessive profit" issue is relevant; and
  - b. other land that airports are considering for conversion to aeronautical use, for which the "incentives to invest" issue is relevant and the "excessive profit" issue is rather less relevant because these marginal land areas are small relative to existing aeronautical land holdings.
55. Seen this way, the obvious alternative approach is to find a way for new aeronautical land holdings to be incorporated into the airports' RAB valuations at their acquisition cost rather than their disposal cost. That outcome would give airports efficient investment incentives while preventing them from writing up the RAB value for all existing land holdings and setting correspondingly higher prices.

### 3.3 Alternative Approach

56. One alternative approach was discussed in my earlier note.<sup>10</sup> It involves treating the cost of conversion to aeronautical usage as a specialised aeronautical asset and entering it into the RAB at cost. Thereafter the normal RAB roll-forward provisions would apply to the conversion cost while all land would continue to be valued on the correct opportunity cost basis. As noted above (¶45) this is exactly how the IMs currently manage specialised investment in converting land to aeronautical use.
57. The same approach could be used in the event that an airport paid a premium over and above the HBAU for the land. The premium could be booked as a specialised asset while the land continued to be valued on the correct opportunity cost (HBAU) basis. This would fully address the perceived investment incentive problem while confining the inflation in land value to newly acquired parcels.

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<sup>10</sup> John Small, MVAU and Zoning, 13 October 2015, paragraphs 18-19 and 22.



## 4 Assessment Against Purpose Statements

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59. As noted above (¶¶14, 15) there are three purpose statements that are relevant to this topic. They are contained in sections 52A, 52R and 53A of the Act which are considered separately below.
60. Although the Commission's draft decision refers to two of these purpose statements it does not attempt a serious evaluation of the Commission's proposal against any of the purpose statements and neither does the supporting EY paper.

### 4.1 Purpose of Part 4 Regulation

61. Regarding section 52A, we have already discussed (¶¶25) the Commission's view from 2010 that valuing land at its opportunity cost is the option "*most clearly consistent with promoting outcomes consistent with outcomes produced in workably competitive markets*" which therefore most clearly satisfies the stem of the s52A purpose statement. The fact that the Commission's proposal is definitely inconsistent with the opportunity cost concept (see ¶¶37 above) shows that in this respect it is also in direct conflict with s52A.
62. Is it possible that the Commission's proposal is so promoting of other elements of section 52A that these benefits outweigh the fact that it breaches the stem of s52A? To answer that we need to look at each of the other four elements of s52A, which require that suppliers:
  - a. have incentives to innovate and to invest, including in replacement, upgraded, and new assets; and
  - b. have incentives to improve efficiency and provide services at a quality that reflects consumer demands; and
  - c. share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices; and
  - d. are limited in their ability to extract excessive profits.
63. It seems clear we can immediately eliminate sections 52A(c) and 52A(d) as providing support for the Commission's proposal since the proposal would lead to higher asset values for all airport land and hence higher prices. In other words these considerations weigh against the proposal rather than in favour of it. There seems to have been no argument previously advanced to suggest that s52A(b) offers support to the proposal, which leaves s52A(a) as the sole candidate to outweigh the detriment associated with not using an opportunity cost concept.

#### 4.1.1 Comparison of Proposal and Alternative

64. The alternative approach outlined above fully resolves the investment incentive problem as it has been described by the airports and the Commission. However it also has two main advantages over the Commission's proposal when assessed against the s52A purpose statement.

- a. Firstly, unlike the Commission’s proposal, the alternative approach allows airport land to be consistently valued using the opportunity cost concept which is “*most clearly consistent with promoting outcomes consistent with outcomes produced in workably competitive markets*”. By contrast, the Commission’s proposal allows valuers to make false assumptions about the current land zoning and for that reason cannot be reconciled with an opportunity cost valuation basis.
  - b. Secondly, unlike the Commission’s proposal, the alternative also limits the ability of airports to extract excessive profits. The Commission’s proposal is systematically biased towards overstating the value of aeronautical land.
65. I conclude that the alternative approach is materially better than the Commission’s proposal because it secures the same investment incentive benefit but is superior on these two other matters of relevance to s52A.

## 4.2 Purpose of Input Methodologies

66. Turning now to s52R, the question is whether the proposal promotes “*certainty for suppliers and consumers in relation to the rules, requirements, and processes applying to the regulation....of goods or services*”. The impact of the Commission’s proposal on this purpose has not been evaluated seriously by EY or the Commission. In this section we compare the Commission’s proposal and the alternative approach against the s52R purpose.
67. EY and the Commission both suggest that there is ambiguity in the existing IMs over how valuers should treat rezoning costs in striking valuations based on opportunity cost. There must be a question over the strength of this argument however, given the wording of Schedule A which includes the following statements.
- a. “*The land is likely to be designated or zoned for the various aeronautical activities of the airport owner. In addition to considering the likely alternative uses for the land, the valuer should also consider the likelihood of the designation being uplifted or the land rezoned, and costs (if any) likely to be involved in this*” (Schedule A at A9(4)).
  - b. Similarly A10(c) stated that the valuer should “*determine the existing or underlying zoning of the land or designations, and the likely zoning of the land for the highest and best alternative use, including the likelihood of zoning change or uplifting of designations*”.
68. Moreover, if the IM reasons paper is read alongside the IMs themselves it is difficult to see how the current settings could be fairly described as ambiguous. The reasons paper clearly supports the opportunity cost concept and the correct method for estimating the opportunity cost of aeronautical land is not at all ambiguous. Thus, the certainty objective of s52R is actually present; it simply requires valuers to respect the opportunity cost concept.



69. Perhaps it could be argued or believed that valuers cannot be expected to be familiar with the Commission's Reasons document or the opportunity cost concept. Even though the economic principles lying behind the opportunity cost concept should be clear to economists that might not be true of valuers. Moreover, as noted at ¶18 above there does seem to have been some confusion over the concept in this particular matter. If this is considered to be an ongoing problem it would be a relatively simple matter to add guidance on the basic opportunity cost concepts discussed in section 2 above.

#### **4.2.1 Comparison of Proposal and Alternative**

70. How does the Commission's proposal compare with the alternative approach in the context of the s52R purpose statement? In analysing this question we will set aside any concerns about the materiality of an ambiguity problem and focus solely on the extent to which the two options (the Commission's proposal and the alternative approach) have the effect of improving certainty.
71. On this criterion, the main difference between the options arises from the menu of three alternative initial zoning assumptions offered to valuers in the Commission's proposal. This feature creates ambiguity and uncertainty (where none previously existed) because different choices will lead to different land valuations and different prices.
72. The situation is much clearer in respect of the alternative approach described in section 3.3 however. Unlike the Commission's proposal, the alternative approach:
- a. allows the widely agreed opportunity cost approach to prevail; and
  - b. avoids subjective decisions that are critical to land value being delegated to valuers who may well have different opinions.
73. I conclude that the alternative approach is materially better than the Commission's proposal in respect of s52R issues.

#### **4.3 Purpose of Information Disclosure**

74. The statutory purpose of information disclosure (ID) regulation as provided for in s53A is to ensure that sufficient information is readily available to interested persons to assess whether the s52A purpose is being met.
75. The transparency associated with information disclosure assists this purpose directly, and further gains towards the s53A purpose are achievable by setting ID rules that are clear, simple and consistent with other parts of the regulatory regime.
76. The menu-based proposal does not compare well against these criteria. Regarding clarity and simplicity, the Commission (at ¶2.19 - 2.20) is effectively delegating to valuers a trade-off between:
- a. The time that has elapsed since the airport acquired land; and
  - b. The risk that land could be written down when airports re-zone it.

77. Without further detailed guidance this places valuers in an impossible position because
- a. It is not clear what the terms “recently acquired” and “a long time ago” mean;
  - b. It is not clear whether the valuer is expected to determine the application of those terms over the whole of an airport’s land holdings or over distinct subsets of it, the boundaries of which depend on the timing of acquisition;
  - c. It is not clear on what basis valuers are supposed to trade-off “the risk that land could be written down” against some other risk that the Commission has not even articulated but which presumably relates to limiting excessive profits.
78. The proposal therefore has strong potential to create conflict between valuers over methodological questions *that lie at the heart of the proposal*.
79. It should be obvious that the challenge for interested persons in assessing whether the s52A purpose is being met is an order of magnitude greater than that which valuers will face under the Commission’s proposal.
80. By contrast the alternative approach described in section 3.3 above would avoid all of these issues. It therefore seems preferable on s53A grounds.