Property Advisory

Directors:
Dougal Smith Dip Hort, B.Com (VPM), MNZPI
Paul Mills B.Com (VFM), Dip Grad Com, MNZPI
Associates:
Tom Marks Dip VFM, B (Ag) Com, FNZIV, MNZIPIM
Lyndon Matthews B.Com (VFM), ANZPI
David Oxnam B.Com Ag (VFM), ANZPI

14 July 2011

Attention: John Beckett

Board of Airline Representatives NZ
PO Box2779
Auckland 1140

RE: WIAL LAND VALUATION REVIEW - DRAFT

1.0 BACKGROUND

1. In accordance with your instructions of 10 June 2011, we have carried out a peer review of the MVAU land valuation report that is being used by Wellington International Airport Ltd (WIAL), in their pricing consultation with substantial airline customers.

2. The WIAL land valuation was prepared by Telfer Young (Canterbury) Ltd (TY) on 31March 2011, and is entitled "MVAU Land Valuation Preliminary Advise."

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

   - Whether the valuation has been undertaken in accordance with Schedule A of the Commerce Commission Input Methodologies for Airport Services under Part 4 of the Commerce Act.
   - Whether the land use plan represents a use that is physically possible, appropriately justified, legally permissible and financially feasible, as per the Commerce Commission directive.
   - Whether the block sales evidence adopted under the zonal approach to the valuation are appropriate and reasonable, and
   - Whether the inputs to the discounted cash-flow subdivision component of the valuation are appropriate and reasonable.

4. We note that as part of the consultation process a meeting was held with TY and WIAL management on 21 June 2011, and a teleconference call was held between WIAL planners Boffa Miskell (BM) on 30 June 2011. This meeting and teleconference call was used by WIAL to give Board of Airline Representatives of New Zealand (BARNZ) consultants an overview of the valuation and planning matters utilized by TY when valuing the airport land.

5. In undertaking this review we have relied on information that has been provided by WIAL, TY, BARNZ, Zomac Planning Solutions Ltd (ZPS), Statistics New Zealand, Wellington City Council, and a number of real estate agents and local property developers. This information includes property details, land areas, resource documentation, planning and resource consent data, historical and projected population and building consent information, plus sales, rental and lease information. We have relied on this information and reserve the right to amend our assessment if the information or adopted valuation assumptions prove erroneous.

6. We note that we have sought a peer review of TY's HBAU development costings. Unfortunately however the costing review has not been finalised therefore we have had to make a number of cost assumptions in our analysis. We reserve the right to amend our analysis and report once detailed peer review costings become available.

7. As requested we have adopted a brief reporting format. Additional information is held on file and is available if required.

2.0 MVAU - METHODOLOGY

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

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

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

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

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

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

Table 1. A10 – Valuation Steps /Methodology

Valuation Steps - A10		Assessment	Comment
(a)	Schedule land to be included in MVAU	Yes	
(b)	Confirm ownership, tenure and aggregated land area	Yes	Some minor errors in property details
(c)	Determine existing zoning and likely zoning of the land for the HBAU	Yes	
(d)	Consider and determine the HBAU, which must be - - Physically possible - Appropriately justified - Legally permissible and - Financially feasible	Yes	
(e)	Consider resource management requirements, amenities in the area and access to services	Yes	

Table 1. A10 – Valuation Steps /Methodology - Continued

Valuation Steps - A10		Assessment	Comment
(f)	For notional subdivision / residual value approaches	Yes	
	- Prepare a land development plan (in conjunction with a planner where considered necessary by the valuer). This should demonstrate the valuers view of the likely HBAU development of the land, and provide evidence for the assessment of inputs into the notional subdivision / residual value approaches;	BoffaMiskell	
	- Determine market demand for the proposed development and the time period for the sale or realisation of the developed land in a notional subdivision or development;		
	- Determine the direct costs of developing the land, including roading, supply of services, legal, sales costs etc;	Opus	
	- Determine any indirect costs of developing the land, including developers holding costs etc;		
(g)	Undertake market research and obtain comparable sales information to support the alternate land uses including both block sales and developed land sales if both a direct sales comparison and notional subdivision / residual value approaches are to be used;	Yes	
(h)	Apply suitable adjusted market evidence to airport land as required and taking account of whether a direct sales comparison and notional subdivision / residual value approaches are to be used;	Yes	
(i)	Reconcile the results of the valuation approaches used and determine a final value for the HBAU; and	Yes	
(j)	Prepare a valuation report, incorporating all disclosures required by the relevant valuation standards.	Yes	

14. Our review of the valuation steps and methodology adopted by TY when assessing the MVAU of the WIAL land as at 31 March 2011, indicates that the methodology adopted appears to meet the International Valuation Standards and Part 4 of the Commerce Act.

15. We do however note that the valuation parameters adopted by TY when 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. The valuation parameters are discussed in detail in the following sections.

3.0 MVAU VALUATION INPUTS – WIAL LAND HOLDING

16. TY have calculated the total WIAL land holdings to be 111.6065 hectares, and the land to be included in the MVAU valuation to be 103.2000 hectares.

17. As part of this peer review we have attempted to reconcile the individual Certificate of Title areas with the TY data. Our analysis indicates a total WIAL land holdings of 112.3135 hectares (excluding leasehold land), and that there are a number discrepancies in the reported TY data.

18. For analysis purposes we have adopted the TY MVAU land area of 103.2000 hectares.

19. We have been advised by TY that the balance land (being approximately 8.4065 hectares) encompasses non-airport related commercial, residential and investment land and has been valued in WIAL's Market Value Existing Use (MVEU) valuation at $31.205m.

20. In principal we agree that the balance land does not form part of the specified airport land, however we consider there is a risk that excluding investment land from the MVAU valuation, which would be developed for a similar use, may distort the supply and demand profiles of land.

21. Decision 709 relates only to specified airport land therefore in practical terms the TY valuation appears to comply with the aggregation concept. However all parties need to make sure the sell down periods of comparable development land adopted in the hypothetical subdivision analysis are realistic, ie; residential sections that are located on Coutts St and Broadway are held for future commercial development and will compete for other WIAL land developed for commercial activities under the MVAU construct.

22. On a further point TY in Section 18.3 of their report state that "….the Airport Retail Park is very successful and we consider there would be excellent opportunity to leverage off this to extend retail for complementary uses." The provision of retail activities are non-specified, therefore under Decision 709 it appears that the TY inputs to the MVAU can leverage off the existing airport retail activities. As discussed above it is important that sell down periods of comparable development land under the MVAU and MVEU constructs are appropriate. Unfortunately TY have made no reference to the competing developments, therefore we are unable to comment on the aggregated supply and demand profiles of MVAU and MVEU land.

4.0 MVAU VALUATION INPUTS – MASTER PLAN

23. TY commissioned BM to develop a master plan identifying future land use options for the WIAL land holdings. In summary BM adopted a master plan that established a mixed use village centre, with surrounding retail, business, medium and low density residential accommodation, plus reserves, parks, roading and utility land uses.

24. BARNZ have engaged independent planners ZPS to review the BM master plan. We understand a separate letter providing comments and optimal planning advice will be tabled by ZPS.

25. In summary we have been advised by ZPS that when compared to the BM master plan they believe the HBAU of the identified WIAL land, would see a lower level of retail development (smaller village centre and limited big box retail), no business park activities, increased medium and low density residential accommodation, and increased public reserves.

26. The respective BM and ZPS land use allocation areas and assessment of the HBAU of the WIAL land are scheduled in Table 2.

Table 2. HBAU Assessments – Land Use Allocation

Land Use Allocation		Boffa Miskell		Zomac Planning Solutions	
		Area Ha	Development Density	Area Ha	Development Density
(a)	Town Centre	7.12	71 x 1,000m²	2.00	20 x 1,000m²
(b)	Business Park	21.60	108 x 2,000m²	0.00	
(c)	Large Format Retail	7.14	14 x 5,000m²	5.00	10 x 5,000m²
(d)	Apartments / Retirement Housing	2.20	88 x 250m²	0.00	
(e)	3 – 4 Story Apartments	19.09	736 x 250m²	4.50	360 x 125m²
(f)	Townhouses	11.00	220 x 500m²	14.00	560 x 250m²
(g)	Detached Family Housing	6.68	130 x 500m²	43.70	874 x 500m²
(h)	Headland Park	4.99		4.99	
(i)	Neighbourhood Open Space	4.58		10.01	
(j)	Roads	18.80		19.00	
	Total	103.20	1,368 lots	103.20	1,824 lots

27. From a valuation perspective the key differences in the HBAU assessments relate to the densities at which residential development would occur, the size of retail development in the town centre, the number of large format shops, and the exclusion of a business / office park.

28. The respective residential dwelling densities / yield proposed by BM and ZPS are detailed in Table 3.

Table 3. HBAU Assessments – Residential Densities / Land Use Allocation

Land Use Allocation	Boffa Miskell		Zomac Planning Solutions	
	Area Ha	Development Density	Area Ha	Development Density
(d) Apartments / Retirement Housing	2.20	40 dwellings / ha = 88 @ 250m²	0.00	
(e) 3 – 4 Story Apartments	19.09	40 dwellings / ha = 763 @ 250m²	4.50	80 dwellings / ha = 360 @ 125m
(f) Townhouses	11.00	20 dwellings / ha = 220 @ 500m²	14.00	40 dwellings / ha = 560 @ 250m
(g) Detached Family Housing	6.68	20 dwellings / ha = 130 @ 500m²	43.70	20 dwellings / ha = 874 @ 500m
Totals	38.97	1,201 Residential Dwellings	62.20	1,794 Residential Dwellings

29. Based on discussions with WIAL and TY it is evident that the HBAU population and residential dwelling densities were calculated by BM after the valuation was completed by TY. This has resulted in some inconsistencies in the valuation. An example of this is where TY reported site coverages for townhouses of up to 50%, and proposed to sell 110 development blocks of 1,000m² to third parties for $525,000. Assuming the townhouses are 2 storied and have a floor area of approximately 175m² this implies a maximum dwelling density of say 45 dwellings per hectare. This contrasts with the planning advice given by BM in July 2011 where they recommend an average townhouse density of 20 dwellings per hectare, with each dwelling having 500m² of land.

30. From a valuation perspective our analysis of transactions of similar zoned 1,000m² to 2,000m² blocks of development land, imply market site densities of between 40 and 60 townhouses per hectare.

31. We also note that BM recommend a land area for townhouses at 500m² per dwelling which is the same as the recommended land area for free standing / detached family homes. Given these identical site densities we do not see the rational in selling 1,000m² townhouse development sites suitable for two dwellings when they would effectively be developed as detached family homes. Further TY have adopted higher gross realizations for the townhouse land ($525,000 per 1,000m²) when compared to detached family home land ($500,000 per 1,000m²). Given the similar end use of the land this value differential does not seem appropriate.

32. Similar circumstances surround the assessment of apartment and rest home land. It is interesting however to see that the dwelling densities proposed by BM for the apartment and rest home land are at 40 dwellings per hectare. These are double those for townhouse and detached residences zones (20 dwellings per hectare), however the TY adopted land values remain the same at $525,000 per 1,000m². Given

the increasing level of development costs per potential residential dwelling, and on the basis of comparable evidence we would have thought higher block values would have been achievable.

33. On the basis of the similar residential land values ($500,000 to $525,000 per 1,000m^2 for detached family homes, townhouse, apartment, and rest-home apartments), it appears that TY have placed little weight on the residential land use allocations proposed by BM.

34. In regard to the town centre retail, office park, and bulk retail land uses, we have been advised by ZPS that BM have overstated the potential demand and consent-ability of their master plan. We understand that this is primarily because ZPS believe the possible population catchment is too small and the fact that the scale of development would negatively impact on the CBD office and retail precinct, as well as the surrounding suburban shopping centres, therefore there would be significant opposition to the proposed scale of development.

35. In line with recent discussions we have had with ZPS, Wellington City Council, local commercial and residential valuers, real estate agents, plus our review of market activity, we are of the opinion that the BM proposed master plan is too aggressive. As a result we believe a more realistic HBAU master plan would follow the ZPS proposal with a smaller 2 hectare town centre (offering 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.

5.0 MVAU – Block / Zonal Valuation Approach

36. Consistent with Schedule A to Decision 709 and the International Valuation Standards, TY have scheduled 21 block land sales dating back to 2006 from which they have analysed land value rates on a per square metre basis. These land value rates have then been applied to the differing HBAU land uses on the WIAL property.

37. In this instance we note that only 4 of the 21 sales scheduled by TY are located in the greater Wellington Region, and that these transactions are for 1.2 to 2.5 hectare parcels of business and commercial zoned land that have immediate development potential. Given the clear differences in size, scale, location, development mix, and potential marketability, we believe the benchmark comparability and use of these sales by TY is such that the adoption of the block / zonal valuation approach in this instance is limited.

38. This is not to say that these block transactions are wasted as they should be analysed and provide market based evidence of inputs used ($ / potential allotment, gross realizations, sell down periods, development costs, and required rates of return etc), in the notional subdivision and residual valuation approaches. From our reading of the valuation reports and information provided by TY, unfortunately no analysis of these transactions appears to have been undertaken by TY.

39. We agree that there is a paucity of directly comparable market evidence; however our review of the market has highlighted a number of other transactions which offer pertinent value benchmarks.

40. In particular we note the transaction of 37.1 hectares of urban development land on Kenepuru Drive, in Porirua. This generally flat to undulating land formed part of the Kenepuru Hospital site and was recently sold from CCDHB to OTS. The land has been generally contoured and is serviced by existing roads and infrastructure, though may need to be upgraded in terms of any redevelopment. The land is zoned suburban, and given the location would ideally suited to residential development (400 lots), or alternatively it could be developed for an industrial use, though a Plan Change would be required. Parts of the site were affected by contamination and the property also included a significant number of institutional buildings which require demolition before redevelopment can occur. The property also contains approximately 3.5 hectares of covenanted reserves and landfill. The property sold February 2010 for $10,377,500 plus GST. Allowing for demolition costs and clean-up of any contamination, this sale analyses to 33.7 hectares usable land, with covenanted reserves and unconsolidated fill of 2.4 hectares. Based on a potential residential use the value benchmarks indicate an approximate land value of $34/m² or $31,000 per potential residential allotment.

6.0 MVAU – HYPOTHETICAL SUBDIVISION BUDGET

41. In the hypothetical subdivision budget TY have simply deducted from the expected realisation of the sale of allotments, all development expenses and a lump sum profit allowance for the purchaser. The residual value then represents the sum which TY consider that a prudent purchaser would be prepared to pay for the parcel of land in its current state (HBAU block value).

42. Our review of the TY hypothetical subdivision budget indicates that a typing error has been made when calculating the profit and risk allowance. This should read $88,602,808 not $86,602,808.

43. Our review of TY's key valuation inputs follows.

6.1 GROSS REALISATIONS

44. The land use allocation and residential densities adopted by TY in the hypothetical subdivision budget are primarily based on the BM master plan.

45. The development mix and gross realizations adopted by TY are detailed in Table 5.

Table 5. HBAU Assessment – TY Gross Realisations (plus GST)

	Land Use Allocation	Area Ha	Development Density	Rate $	Gross Revenue $
(a)	Town Centre	7.12	71 @ 1,000m²	1,000/m²	71,196,000
(b)	Business Park	21.60	108 @ 2,000m²	650/m²	140,418,850
(c)	Large Format Retail	7.14	14 @5,000m²	650/m²	46,404,800
(d)	Apartments / Retirement Housing	2.20	22 @ 1,000m² (88 @ 250m²)	525/m²	11,550,000
(e)	3 – 4 Story Apartments	19.09	191 @ 1,000m² (736 @ 250m²)	525/m²	100,222,500
(f)	Townhouses	11.00	110 @ 1,000m² (220@ 500m²)	525/m²	57,750,000
(g)	Detached Family Housing	6.68	134@ 500m²	500/m²	33,407,500
(h)	Headland Park	4.99			
(i)	Neighbourhood Open Space	4.58			
(j)	Roads	18.80			
	Total	103.20			460,949,650

46. The gross realisations adopted by TY are based on the assumption that serviced land will be sold to third party developers who in turn will develop the town centre, business park, and residential accommodation.

47. In general we agree with this approach however we believe the proposed HBAU development mix is too aggressive, is not easily consent-able, and overstates market demand for commercial and business park activities. As a result it is questionable as

to whether or not the HBAU criteria set out in Section A10 of Decision 709 (in terms of being appropriately justified, legally permissible, and financially feasible), is meet.

48. Subject to our HBAU comments above 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.

49. Our analysis of sales of medium density apartment and town house land (at densities of between 40 and 60 dwelling per hectare), infer higher land values than those adopted by TY.

50. In the absence of comparable sales evidence of medium density apartment / town house land we believe a prudent developer would value the land on the basis of a top down valuation, ie; taking the gross realisation from the sale of residential units, less costs, profit margin, plus sales / holding costs over the period to arrive at a residual land value. This top down approach should be used by TY to cross check the medium density apartment / town house gross realisations and resultant MVAU.

51. In light of the low densities and gross realisations being adopted by TY for townhouse and apartment land ($525,000 and $500,000 respectively for 1,000m² of land), we believe the HBAU development may as well have been based solely on low density standalone residential dwellings. This would however increase TY's sell down period and reduce the MVAU.

52. Our analysis of vacant residential section sales in Wellington indicates that top prices are being achieved within the seaside settlement of Seatoun, where waterfront sites are selling between $600,000 and $1,000,000 depending upon the section size and degree of views. Other less desirable sites in Miramar and Seatoun typically range in size from 350m² to 600m² and transact between $180,000 to $250,000 (including GST), increasing to in excess of $400,000 for elevated sites with a good outlook.

53. On the basis of our analysis and review of the existing housing stocks in Lyall Bay, Rongotai and Miramar, we believe that TY have marginally over stated the average gross realisation for the 500m² standalone residential sections. Consistent with previous WIAL land valuations we believe the appropriate land value including GST should be $280,000 per lot, or $560/m². Excluding GST this equates to $243,478 per lot or $487/m².

6.2 COSTS OF SALE

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

- Sales commissions - of 3.75% of the net realization, and
- Legal expenses - $1,000 per site.

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

6.3 Development Expenses

56. TY commissioned OPUS Consulting Ltd to prepare construction costings for the development of the BM master plan. Table 6 summarises the base HBAU construction costs provided to us by TY.

57. We note that in Table 6 we have reallocated the costs of common area infrastructure on a net land / development area basis, to establish benchmark costs per square metre of commercial land and per potential residential dwelling.

Table 6. HBAU Assessment – OPUS Construction Cost Estimates

Description	Base Cost	Allocated Cost	TY Development Density	Benchmark Cost $
Shopping Centre	1,653,000	6,135,651	71 @ 1,000m²	86/.m²
Office Park	5,915,000	19,528,119	108 @ 2,000m²	90/m²
Large Format Retail	3,062,000	7,574,913	14 @5,000m²	106/m²
Retirement Apartments	585,000	1,971,114	22 @ 1,000m² (88 @ 250m²)	22,399/Potential Dwg
Apartment	5,076,000	17,103,683	191 @ 1,000m² (736 @ 250m²)	22,387/Potential Dwg
Townhouses	4,502,000	11,452,692	110 @ 1,000m² (220@ 500m²)	52,057/Potential Dwg
Detached Family Housing	2,023,000	6,233,828	134@ 500m²	46,521/Potential Dwg
Headland Park	487,000	0		
Neighbourhood Open Space	681,000	0		
Roads	17,807,000	0		
Water / Sewers / Stormwater	27,327,000	0		
Total	69,118,000	70,000,000		
Say	70,000,000			

58. In addition to the base construction costs estimates schedule above, TY have made allowances for the following costs:

- Management $840,000,
- Rates $10,500,000, and
- Marketing $1,300,000.

59. We have recommended that BARNZ engage an independent quantity surveyor to carry out a peer review of the OPUS Consulting Ltd construction costs.

60. We note that the TY valuation has no commentary on costs of maintaining the sea walls which protect the southern portion of the HBAU master plan / airport complex. Based on costs provided by WIAL, we understand that the annualised sea wall

maintenance costs over the next 10 years will be approximately $300,000 per annum. We have discussed this with the Wellington City Council and they have advised us that they would probably not want the asset even if the costs were capitalised and cash given to them. The alternative option would be to hold the sea wall in a body corporate by the residents. Either way a cash deposit would be required to fund the perpetual maintenance of the sea walls – say $5m ($300,000 / 6% = $5m). These capitalised maintenance costs need to be included as a development cost in the TY analysis.

61. On a side issue we note that from a valuation / timing perspective it is difficult to see how the infrastructure was accurately costed, given the timing of the initial TY valuation in March 2011, and subsequent dwelling densities only being calculated by BM in July 2011.

6.4 PROFIT & RISK ALLOWANCE

62. TY have allowed profit and risk at 25% of outlay. They note that this is an accepted allowance for block land subdivision, and that it is supported by legal precedent.

63. On review of historical TY valuations of WIAL land assets, we also note that since 2006 TY have adopted a profit and risk allowance range in the MVAU valuations in the vicinity of 25% of outlay.

64. In my experience the profit and risk margin required by developer's change over time as market conditions and sentiment towards property based investments change. In accordance with standard valuation practice the appropriate profit and risk margin can be observed and analysed from transactions of comparable block land sales.

65. In this instance TY have scheduled 21 transactions of block land sales in New Zealand, unfortunately however no detailed analysis of these transactions appears to have been carried out. Therefore other than legal precedent TY have no market derived evidence to support the adopted profit and risk allowance at 25% of outlay.

66. In practical terms profit and risk margins analysed from comparable transactions fluctuate relative to the following factors:

- The size and scale of the development,
- The potential development mix,
- The complexity of design and marketability,
- The consent-ability and level of planning risk involved,
- The state of the market and effective competition,
- The availability and security of investment,
- Comparative returns available from other investments,
- Expectations surrounding future capital appreciation, and

- The weight of capital employed in the development.

67. In summary the greater the risk being carried by the developer, the greater the required return / profit and risk allowance.

68. Our analysis of recent urban development land transactions indicate that the required return / profit and risk allowances currently range from 10% to 40% of outlay. This has increased in recent years as the global financial crisis has put pressure on property values, reduced funding liquidity, and depressed expectations surrounding future growth.

69. On the basis of our experience, analysis of urban development land transactions, and discussions with major property developers, we believe that TY have underestimated the current risks associated with a development of this size and scale. We believe the profit and risk allowance should be in the order of 30 to 35% of outlay.

6.5 INTEREST HOLDING CHARGES

70. TY have adopted an interest holding charge at 9% on outlay for half the 7 year realization period.

71. We believe the adopted interest charge at 9% is fair and reasonable, however the realization period at 7 years is far too aggressive.

72. On the basis of advice from ZPS and discussions with Wellington City Council planners, plus local commercial and residential valuers and real estate agents, we believe there would be significant opposition to the proposed scale of development. Not withstanding our assessment of the HBAU master plan, this would result in significant consenting and timing delays, which together with a more realistic sell down period, would push the development horizon out towards 15 years.

6.6 SUMMARY

73. It is well recognised by valuers that for a development period of between eighteen months and two years, that the hypothetical subdivision budget provides a reasonably reliable indicator of value. However if the development period is greater than two years, distortions in value can occur using the subdivisional budget due to the timing of cash flows as this method fails to accurately account for the opportunity cost of capital.

74. On the basis of master planning advice received from ZPS and our review of market conditions, we believe that the HBAU master plan promoted by TY is too aggressive in terms of consent-ability and the development horizon / sell down period. As a result we believe TY's MVAU valuation under the hypothetical subdivision budget is overstated, and it is questionable in terms of Section A10 of Decision 709 as to whether or not the HBAU development appropriately justified.

7.0 MVAU – DCF HYPOTHETICAL SUBDIVISION

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

76. In this TY analysis the gross realisations, costs of sale, development costs, and profit and risk allowances are identical to those adopted under the hypothetical subdivision budget above.

77. Without wanting to double up on commentary, the key aspects of the DCF analysis which we believe need substantial further discussion and reconsideration are:

- The BF master plan which is too aggressive and not realistic (discussed above in Section 4.0),
- TY's adopted 7 year development horizon which is substantially too short,
- The development costs, where we have recommended BARNZ obtain independent specialist advice.

6.7 DEVELOPMENT HORIZON

78. In summary TY plan to obtain planning approval for the entire development in 9 months, for construction to occur in 15 months, and then to sell the entire development (being approximately $461m in sales), within 5 years.

79. We have been advised by BARNZ that separate comments will be provided on the appropriateness and consent-ability of the BM master plan, and we have recommended that BARNZ obtain independent advice on HBAU development costs and construction timeframes.

80. TY propose that as part of the HBAU development that serviced retail, commercial, and detached family housing land will be sold to individuals who can undertake their own development on the individual lots. In addition they propose that serviced medium density rest-home, apartment and townhouse land is sold to third party developers on 1,000m^2 lots, who will in turn develop and sell residential accommodation.

81. A summary of TY's proposed sales and actual densities are scheduled in Tables 7, 8 and 9 on the following page.

Table 7.HBAU Assessment – TY Sales & Actual Densities

	Land Use Allocation	Area Ha	TY Sales	Actual Density
(a)	Town Centre	7.12	71 lots @ 1,000m²	71 lots @ 1,000m²
(b)	Business Park	21.60	108 lots @ 2,000m²	108 lots @ 2,000m²
(c)	Large Format Retail	7.14	14 lots @ 5,000m²	14 lots @ 5,000m²
(d)	Apartments / Retirement Housing	2.20	22lots @ 1,000m²	88 lots @ 250m²
(e)	3 – 4 Story Apartments	19.09	191 lots @ 1,000m²	736 lots @ 250m²
(f)	Townhouses	11.00	110 lots @ 1,000m²	220 lots @ 500m²
(g)	Detached Family Housing	6.68	134 lots @ 500m²	134 lots @ 500m

Table 8. HBAU Assessment – TY Proposed Lot Sell Down Period

	Land Use Description	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Total
(a)	Town Centre	0	0	21	14	14	14	7	71
(b)	Business Park	11	11	27	27	11	11	11	108
(c)	Large Format Retail	3	3	3	3	1	1	1	14
(d)	Apartments / Retirement Housing	0	0	18	4	0	0	0	22
(e)	3 – 4 Story Apartments	0	0	57	48	38	29	19	191
(f)	Townhouses	0	0	33	28	22	17	11	110
(g)	Detached Family Housing	0	0	80	40	13	0	0	134
Totals		14	14	239	164	100	71	49	650
Totals Excluding Commercial Land		0	0	188	120	74	45	30	456

Table 9. HBAU Assessment – Actual Lot Sell Down Period - Actual Density

	Land Use Description	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Total
(a)	Town Centre	0	0	21	14	14	14	7	71
(b)	Business Park	11	11	27	27	11	11	11	108
(c)	Large Format Retail	3	3	3	3	1	1	1	14
(d)	Apartments / Retirement Housing	0	0	18	4	0	0	0	22
(e)	3 – 4 Story Apartments	0	0	221	184	147	110	74	736
(f)	Townhouses	0	0	66	55	44	33	22	220
(g)	Detached Family Housing	0	0	80	40	13	0	0	134
Totals		14	14	436	328	231	169	114	1,305
Totals Excluding Commercial Land		0	0	385	284	205	143	96	1,112

82. When interpreting these tables it is important to note that excluding the commercial land, the effective number of residential dwellings (including apartments,

townhouses, detached houses),that TY are proposing to sell is over double the reported number of new allotments, ie; 1,112 compared to 456.

83. As a result the comments in Section 18.2 of the TY report which state the proposed development is equivalent to approximately one years total consumption in the Wellington market is misleading.

84. On the basis of recent Urban Development Strategy reports the Wellington City Council anticipate that based on medium series population projections that approximately 512 new residential dwellings will be required per annum in Wellington City over the next 40 years. On the basis of historical development planners anticipate the following growth patterns to occur:

- 36% of the total growth will be for high density housing. This will predominantly occur in central Wellington, the first section of Adelaide Rd, and smaller areas in Johnsonville, Oriental Parade and along the growth spine.
- 30% of the total growth will be for medium density housing. This will be directed to key centres along the growth spine – Johnsonville, Kilbirnie and Adelaide Rd.
- 34% of the total growth will be low density housing. The majority of this housing will be in the form of greenfield subdivisions in the northern suburbs with pockets of undeveloped land and infill housing within the existing urban footprint.

85. We accept that the MVAU methodology and hypothetical development of WIAL land is unique and that it was not envisaged by Wellington City Council planners when preparing the Urban Development Strategy. However based on projected population demand, the nature of the WIAL land and the volume of land being put to the market, we believe the sell down periods adopted by TY are unrealistic.

86. We note that no analysis or commentary is contained in the TY report on the demand for apartments and townhouses, nor the effect of government downsizing on the marketability, gross realisations, and rentals achievable within the business park. On the basis of our experience and discussions with local commercial valuers and real estate / leasing agents, we believe the development period adopted by TY is too optimistic and too short.

6.8 SUMMARY

87. On review, the DCF hypothetical subdivision model adopted by TY appears to be accurate and working within the bounds of the stated valuation inputs. However, we have serious questions about the reasonableness of some of the inputs, particularly the sell-down period.

8.0 MVAU SUMMARY

88. In accordance with your instructions we have completed a peer review of the TY land valuation report that is being used by WIAL in their pricing consultation with substantial airline customers.

89. As part of this review we confirm that the valuation steps and methodology adopted by TY when assessing the MVAU of the WIAL land as at 31 March 2011 appears to comply with the International Valuation Standards and Part 4 of the Commerce Act.

90. On the basis of master planning advice received from ZPS and our review of market conditions, we believe that the HBAU master plan promoted by TY is too aggressive in terms of:

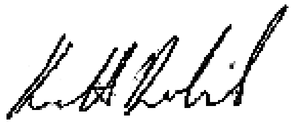
- The consent-ability of the BM master plan,
- The planning and construction timeframe,
- The assessment of the required profit and risk margin to the developer,
- The level of perceived demand for commercial land,
- The appropriate sell down period for identified retail and residential land, and
- The exclusion of sea wall maintenance costs in the analysis.

91. As a result of these factors we believe TY's MVAU valuation is over stated and it is questionable in terms of Section A10 of Decision 709, as to whether or not the HBAU development is appropriately justifiable, legally permissible, and financially feasible.

92. In relation to this peer review we note that specific comments on the appropriateness or otherwise of the BM master plan and its consent-ability will be independently addressed by ZPS. Secondly, we have recommended that BARNZ obtain independent comment on the appropriate development costs and construction timeframes. And thirdly, we recommend that a detailed MVAU valuation of WIAL land be undertaken by Property Advisory.

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

Yours faithfully
Property Advisory Ltd



KD Smith
B.Com VPM, MNZPI
Registered Valuer
Director