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20 April, 1995

Air Services Branch
Ministry of Transport
PO Box 3175
WELLINGTON

Attention Mr J Edwards

Dear Sir

- 8 SEP 2005

Valuation - Paraparaumu Aerodrome

Following receipt of your recent instructions we have again inspected the Paraparaumu Aerodrome for the purpose of valuation. You will be aware that the writer has undertaken a number of valuations of this aerodrome on the Ministry's behalf over the last six years. This particular valuation is undertaken concurrent with the Ministry's present intention to sell the business of the Paraparaumu Aerodrome. To this end we have been provided with a copy of the Ministry's *Information Memorandum* relating to the business and assets of the Aerodrome. We have perused the Memorandum and reviewed the lease documentation relative to tenancies on the Aerodrome.

The task set us was to provide assessments on the following bases:

- Net current value or market value of the assets of the Aerodrome as a "going concern" business;
- Net realisable value or market value highest and best use of the surplus land;
- Net realisable value or market value alternative use of the Aerodrome.

Background

Policy objectives noted in the Memorandum state that it is Government's intention to dispose of the Aerodrome as an ongoing business in a single parcel of assets. It is recognised that some of the land may be surplus to operational requirements and that any separate sale of the surplus land will be subject to offer back provisions of the Public Works Act 1981. Purchase of the Aerodrome will be by way of shares in Paraparaumu Airport Ltd which will be designated an Airport Company in terms of the Airport Authorities Act 1966.

The assets being sold are listed in the Memorandum as being:

- land;
- runways, taxiways and roads;
- Ministry leases at the Aerodrome;
- residential houses;
- Ministry buildings in the Aerodrome; and
- windsocks and boundary fences.

The Aerodrome land comprises an area of approximately 130.7689 hectares and is to be incorporated into a single title upon sale.

It does not appear that any of the Aerodrome leases are perpetually renewable and those perused had fixed termination dates including (in most) special grounds for termination which typically provided as follows; *if the Lessor decides to redevelop all or part of the aerodrome to an extent that it interferes with the Lessee's operations the Lessor may determine the lease by giving 12 months notice and compensating for improvements.*

Ground leases and rented buildings are generally located within that area of the Aerodrome which might be described as the operational or core business area and potential rental income from this source is said to equate $109,000 per annum. Grazing licences and residential rentals make up the balance of the property income on what might be described as non-core or surplus land. Potential annual rental income from this source is estimated as being $68,000. The various leases are managed by Landcorp Property Wellington.

Income from airport charges is said to be low. In our discussions with Mr Taylor of Ernst & Young, as advisor to the Ministry, he has suggested potential income from airport charges could be as much as $63,000 per annum.

Based on the above projections we have built up the following income statement.

	Core Assets		Surplus Assets		Total
Ground leases	36,000				
Building rentals	73,000				
		109,000			109,000
Grazing licences			3,000		
Residential houses			65,000		
				68,000	68,000
Landing charges		63,000			63,000
TOTAL REVENUE		172,000		68,000	240,000
Expenditure					
Management	25,000				
Rates	16,000		10,000		
Maintenance	35,000		7,000		
Other expenses	10,000		3,000		
		86,000		20,000	106,000
NET CASHFLOW		86,000		48,000	134,000
Depreciation		8,000		1,000	9,000
		82,000		47,000	125,000
Tax @ 33c		25,000		15,000	40,000
NET PROFIT AFTER TAX		$53,000		$32,000	$85,000

Valuation Process

1 *Net current value or market value of the assets of the Aerodrome as a "going concern" business.*

The primary driver of a "going concern" valuation is the net profits after tax figure that is capitalised at a real rate which we have taken to be between 6% and 8%.

We have broken the profits figure down to that derived from the business of the core assets as distinct from the surplus assets, the latter being the residential land in the south-west corner of the Aerodrome which has no operational significance.

To capitalise profits from the Aerodrome in its totality would be to understate the value of the potentially subdivisible surplus residential land and to therefore understate the value of the overall Aerodrome.

We have not included the industrial land within our definition of surplus as the cost of relocation or compensation in breaking the existing leases would in our opinion not equate the added value likely to derive from sale of the subdivided land.

2. *Net realisable value or market value highest and best use of the surplus land.*

We estimate the area of land involved in the south-west corner of the Aerodrome to be about 21 hectares in total. Some land would be lost in roading and reserves so that about 155 sites might be developed on the land. Ten of these sites are already encumbered with existing Aerodrome houses.

Cost of sale estimates include for profit and risk and development costs.

3. *Net realisable value or market value alternative use of the Aerodrome.*

In this exercise we have assumed the airport to cease operating as such and for the entire property to be available for subdivision, part as residential (the bulk of the property) and part as industrial (the Kapiti Road frontage).

The realisation period would be considerable and values would not be expected to rise above CPI increases over the period. Development costs including time delays in gaining approvals because of the offer back process and the requirement to compensate existing lessors will impact on the block valuation.

Valuation Assessments

1 *Net current value or market value of the assets of the Aerodrome as a "going concern" business.*

Net cashflow of core assets		
capitalised @	6% real	\$883,333
	7%	757,142
	8%	662,500
Adopt		\$833,333

plus Net realisable value surplus land (residential)		703,017
		$1,586,350
	SAY	$1,600,000
Net cashflow of surplus assets as return on net realisable value		4.55%

2. *Net realisable value or market value highest and best use of the surplus land.*

Subdivision of Surplus Residential Land
Block Value Assessment
Income

Description	**#**	**Per Lot**	**Total**
Stage 1 Sections	10	$40,000	$400,000
Stage 1 Houses	8	90,000	720,000
Stage 2 Sections	28	40,000	1,120,000
Stage 2 Houses	2	90,000	180,000
Stage 3 Sections	46	42,500	1,955,000
Stage 4 Sections	34	42,500	1,445,000
Stage 5 Sections	27	42,500	1,147,500
Total Income	155		6,967,500
Costs of sale @ 4%			278,700
Profit & Risk @ 25%			1,337,760
Outlay			$5,351,040
Development Costs			
Preliminary & General	1,775		275,125
Earthworks	6,425		995,875
Storm Drainage	1,550		240,250
Sewers	2,050		317,750
Watermains	2,225		344,875
Roading	4,250		658,750
Miscellaneous Charges	650		100,750
Total Construction	2,704		2,933,375
Fees & Utilities	2,000		310,000
Total Payments	4,704		3,243,375

Interest on Outlay	10.5%	1,404,648
Total Expenses		$4,648,023
Block Value/NRV Surplus Land		$703,017

3. *Net realisable value or market value alternative use of the Aerodrome.*

• NRV surplus residential land	$703,017
• Industrial land off Kapiti Road net 15 hectares @ $45,000 per ha	$675,000
• Core aerodrome as residential net 72 hectares or $30,000 per ha	2,160,000
	$3,538,017
SAY	$3,500,000

Summary

As it is the Ministry's firm intention to dispose of Paraparaumu Aerodrome on a "going concern" basis even though the value of the airport is potentially greater in its alternative use, we have approached our valuation on the basis of an economic assessment for the core or operational assets and have added for the block value of the realisable surplus assets to suggest a total value of $1.6 million.

It must be noted that our valuations are best estimates only. We have not had access to detailed subdivisional plans that might ordinarily have been expected nor have we been able to prepare definitive development costings.

ERNST & YOUNG

20 April, 1995
Ministry of Transport

We would be pleased to discuss any aspect of our report with you.

Yours faithfully
ERNST & YOUNG

G J Horsley FNZIV
Partner