

Email memorandum

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To	Jeff Farrell
From	Debby Sanders, Greg Ball, Graeme Bates, Tim Hayward
Date	31 October 2016
Subject	Methodology to Determine the Base Value for Awatarariki Fanhead Voluntary Retreat Offers.

Jeff,

As requested The Property Group Limited (TPG) has determined the methodology to establish the "Base Value" for each of the 34 privately owned properties located within the Awatarariki Fanhead. These Base Values, plus any applicable Discretionary Components will form the total quantum of the Voluntary Retreat Offer by Whakatane District Council (Council) to the owners of the subject properties.

TPG's Awatarariki Fanhead, Matata Acquisition Strategy dated July 2016, page 13, Figure 1 illustrates the Voluntary Retreat Offer Process, including the respective Discretionary Components.

In this memo we firstly summarise the process and inputs on which our conclusions and recommendations are based, followed by more detailed explanations.

SUMMARISED METHODOLOGY TO DETERMINE THE BASE VALUE

TPG has considered the valuation methodology and values that TelferYoung (TY) has applied to the privately owned properties located within the Awatarariki Fanhead and the external peer review process undertaken by J Reid. It is TPG's view that this process is robust and defensible.

TPG recommends that the TY 2016 Current Market Values (CMV) without the effect of the event should form the Base Values. This however excludes the properties that have been purchased for below CMV after Council's December 2012 resolution that an engineering solution to mitigate the risk to life was not possible.

Applicable discretionary components specific to a property are to be added to the Base Value and the total of these amounts will equate to the amount to be offered to the property owners under the Voluntary Retreat Offering. The Voluntary Retreat Offering for the excepted properties will be on the basis of their most recent purchase price plus applicable discretionary components. It is further recommended that these 2016 values be revised within one month of the actual offer being made in 2017 to ensure the values align with the CMV at that time.

In addition to the Base Value of \$12,575,000 for the 34 privately owned properties, it is suggested that a contingency be added to cover any increase in residential property values between now and when the offers will be made, discretionary components, and the net cost of clearing of each site post settlement. This will total the amount required from Central Government, Bay of Plenty Regional Council and Whakatane District Council collectively to fund this Voluntary Retreat Offer.

DETAILED METHODOLOGY TO DETERMINE BASE VALUE

In forming a view on what values should be adopted as the Base Values for the purposes of providing property owners with an indicative voluntary retreat proposal, TPG has taken into account the following factors.

APPOINTMENT OF INDEPENDENT VALUERS

Council undertook an invited tender process in June 2016 for the purpose of engaging an independent valuation firm to provide valuation reports on each of the privately owned properties within the Awatarariki Fanhead and which are intended to be subject of the Voluntary Retreat Offering. TY, Tauranga was engaged by Council as a result of this competitive tender process. Shayne Donovan-Grammer, a valuer with some 21 years' experience in providing valuations for property within the Bay of Plenty Region and who specialises in insurance, retirement villages, EQC compensations and tax valuations led this valuation assignment with support from Zane MacGibbon. Alastair Pratt, Director of TY, and Fellow of the NZ Property Institute, and who has some 40 years' valuation experience, undertook TY's internal quality assurance process.

Each property was valued on the following basis:

- As at May 2005 pre the event.
- As at June 2016 without the effects of the event and subsequent impact to property use and therefore the impact to property values considered.
- As at June 2016 with the effects of the event and subsequent impact to property use and therefore the impact to property values considered.

TY undertook:

- An initial desktop valuation of each property.
- A comprehensive single valuation report for all properties which detailed the process applied to determine the values.
- An individual valuation report specific to each property.

EXTERNAL PEER REVIEW PROCESS

Council engaged John Reid of Added Valuation to carry out an independent external peer review. John is an experienced multi-disciplined valuer with a wide knowledge base and typically undertakes compensation and investigative projects and investment analysis together with special asset and

insurance valuations. John is a Fellow of both the NZ Institute of Valuers and the Property Institute of NZ, and has carried out complex assignments for TPG and its clients in the past. TPG is very confident in the quality of John Reid's work.

John completed a comprehensive analysis and peer review of TY's methodology and outputs. In conjunction with his review and the application of his extensive property market and valuation knowledge, he provided detailed feedback to TY. TY adopted his recommendations that resulted in a number of modifications and provided Council with their finalised valuation reports. The finalised documentation and material which supported John's review was provided to TPG.

TPG'S REVIEW PROCESS

Deliverables by TY and J Reid

TPG considered TY's internally and externally peer reviewed outputs in conjunction with J Reid's processes and data to support his peer review. A teleconference between TPG and J Reid followed this document review to further discuss the process undertaken and to provide clarity on points raised by TPG. Additionally the basis on which the values were determined for each of the periods was considered.

Rateable Value (RV) and Current Market Value (CMV) Considerations

It is important at this point to discuss how the Rateable Value (RV) and Current Market Value (CMV) typically compare with each other and the basis on which the RV and CMV are determined.

RV's are assessed every three years with the express purpose to determine value relativity between properties as a means to set the level of rates per property. While these valuations are broadly assessed as market values, they are produced via mass appraisal techniques utilising core data that is held for each property. Individual property inspections are not generally undertaken, other than in a small number of cases where a major change to a property is noted. An example would be an inspection to assess new building work that had been identified through the issuing of a building consent.

Because of the typically high level mass appraisal approach used to determine the RV's, the values tend to be averaged out. This can mean that properties of higher than the average property standard for the subject area tend to be assessed at a value lower than CMV, while properties of a lower standard than average tend to be assessed at a higher value. Also, as RV's are assessed every three years, they can quickly become out of date. For the above reasons, RV's are not necessarily indicative of market value.

By way of contrast, when assessing a CMV, a full property inspection is undertaken and the assessment takes into account all of the property's actual characteristics as at the date of valuation. The key elements of this value are spelled out in the New Zealand and Australian valuation standards that define market value as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

In 2005 the property market was buoyant. With hindsight, we know that the top of the property cycle, or when property prices reached their peak, was around 2008. Therefore the 2004 RV's were generally lower than the 2005 CMV's. Due to the uncertainty around the future use of the fanhead,

and consequential effects on the value of the properties within the Awatarariki Fanhead, the RV's were not assessed again until 2013.

The Awatarariki Fanhead CMV's rose from 2004 through to a peak in 2008. The valuers consider that the 2013 values were similar to 2008. Therefore the 2013 RV's were generally higher than the 2004 RV's. Through the Global Financial Crisis (GFC), property prices reduced or were stagnant. Over the last few years we have seen property prices increase significantly in the main centres, particularly in Auckland. A 'halo effect' has now extended beyond Auckland and is reflected to a degree in the TY 2016 Awatarariki Fanhead valuations exclusive of the hazard.

It should be noted that Quotable Value (the assessors of the 2016 RV's) have advised that due to an element of stigma they have held the 2016 Awatarariki Fanhead RV's at around the 2013 RV levels.

Base Value: 2016 CMV Without the Effects of the Event

It is fully acknowledged that the position the Awatarariki Fanhead property owners are in is not of their own making. As a result of consequential effects of the 2005 event these properties owners have had their ability to make material property decisions taken away from them. The uncertainty over the last 11.5 years has been very unsettling and stressful for many. Some have 'moved on' whereas others have been required to essentially place their lives in a 'holding pattern' whilst they await the future status of their property, and possibly their most valuable asset, to be determined. It is accepted that this delay is a result of the necessity for Council to fully explore and consider long term solutions that will provide the best outcome for all its stakeholders.

The 2016 CMV's excluding the event are reflective of what the subject properties are expected to achieve in an arm's length transaction under normal circumstances. It is the quantum that these people will require to replace their property with a comparable property in the current market. Should any of the other RV's and CMV's form the Base Value the property owners would receive a lesser dollar amount for their property than they require to replace the property in the current market. If the Base Value is set as an amount lower than the 2016 CMV's excluding the event, the property owners will be penalised for a situation beyond their control.

The property associated limitations and decisions made to date by Council have been based on limiting the risk to lives. Remediation options have been discarded and therefore the fundamental property rights of these property owners have been reduced to varying degrees, and in some cases removed. The adoption of a Base Value other than the 2016 CMV excluding the event may place some property owners in a position of having no choice but to decline the Voluntary Retreat Offer because of the financial predicament they may find themselves in. Therefore the risk to life within the Awatarariki Fanhead could in some cases continue.

Property Purchases after Council's 2012 Resolution

In 2012 Council resolved that it was not possible to implement an engineering solution that would mitigate the risk to life on the properties within the Awatarariki Fanhead during an event of a similar scale as that in 2005. This decision was well publicised and is considered common knowledge within the greater Whakatane communities. For this reason it is TPG's view that purchasers of properties within the Awatarariki Fanhead after December 2012 did so on an informed basis. Therefore these properties (three in total to date) which were purchased below CMV, without the effects of the event, could be viewed as opportunistic purchases and the owners will not suffer any appreciable financial loss if they are offered the price they paid.

TPG's Conclusions

TPG has considered:

- The respective Rateable and Current Market Values assessed for the different periods.
- The impact that the event has had generally on the properties and their values.
- The position that the property owners have found themselves in due to no fault of their own.
- Council's 2012 Resolution and the treatment of purchases post this date.
- The process applied to determine the Voluntary Retreat Offering.

TPG has concluded that:

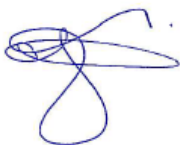
1. The processes undertaken by both TY and J Reid are robust and defensible.
2. The values as at June 2016 without the effects of the event (i.e. disregarding the subsequent impact to property use and therefore the impact to property values) is considered fair and reasonable to owners of Awatarariki Fanhead properties and all stakeholders of the Whakatane District.
3. Adopting a lower value for the Base Value is unlikely to provide sufficient incentive to property owners to relocate from their current properties thereby keeping them exposed to the risk from future debris flows.
4. The valuation reports should be updated within one month of the final offers being made by Council/Government/Regional Council to the property owners to ensure they reflect CMV without the effects of the event.
5. The Base Value for properties purchased post Council's December 2012 resolution that an engineering solution was not possible to mitigate the risk to life on the subject properties, that were purchased for lower than CMV should be the price the purchaser paid. Therefore they will not be seen to be rewarded for what could otherwise be seen as opportunistic purchases.

TPG's Recommendations

We recommend that the base value component of the Voluntary Retreat Offering should be:

1. In the case of properties purchased for lower than CMV after Council's December 2012 resolution that an engineering solution was not possible to mitigate the risk to life on the subject properties during another event, the Base Value should be the price the purchaser paid.
2. For all other properties the Base Value should be the value determined by TY as at June 2016 (as updated) without the effects of the event.

Regards,



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