

Indicative land receipts: OSD and residual land opportunities

Interim report - Dominion Junction & Onehunga
July 2023

Version 1

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Glossary of abbreviations	
AUP	Auckland Unitary Plan
CV	Capital value (Auckland Council Rating Valuation, June 2021)
FAR	Floor area ratio
GFA	Gross floor area
HA	Hectares
HABU	Highest and best use
LV	Land value (Auckland Council Rating Valuation, June 2021)
NLA	Net lettable area
NPS-UD	National Policy Statement on Urban Development
NSA	Net saleable area
OSD	Over-station development
PSM	Per square metre
UCC	Urban commercial case

Key Messages

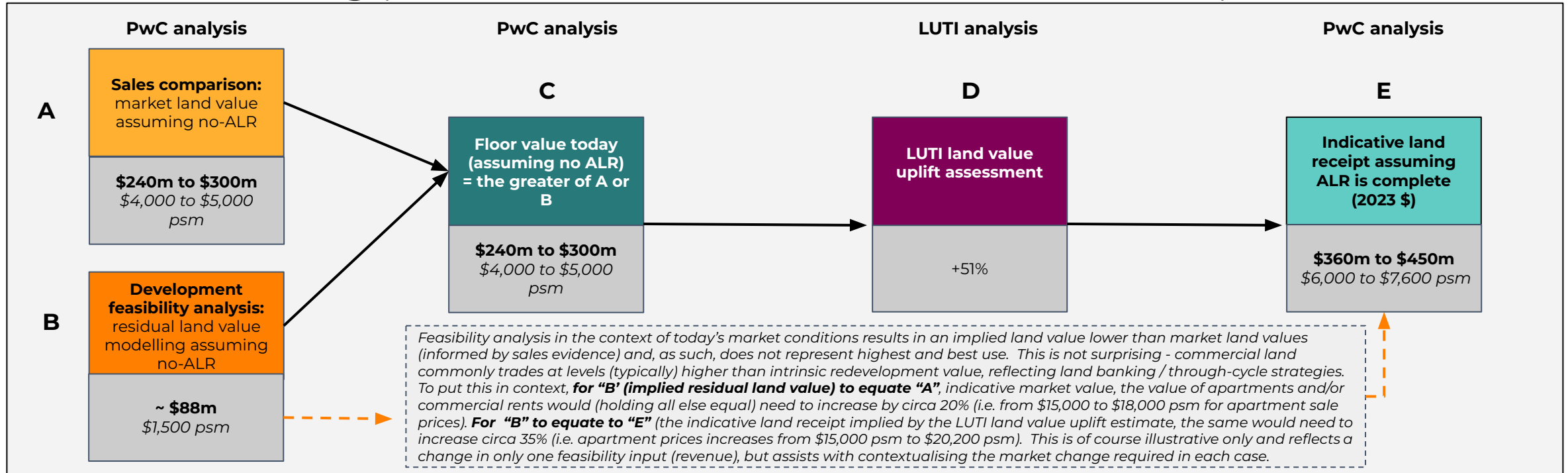
Key Messages

- There are 13 potential OSD sites (**7.7 ha**) and 31 residual land sites (**10.8 ha**) across the ALR CC2M corridor. This totals **~18.5ha of land across 44 sites** that will be owned by ALRL following completion of the rail.
- This is an interim report that focuses on the key opportunities at the Dominion Junction (DJ) and Onehunga stations only. These are two of the largest opportunities by land area (and value) and reflect two of the most market attractive locations.
- This analysis will be replicated for the balance OSD and residual land opportunities.
- Importantly, the residual land opportunities will “exist” post completion of the rail, without intervention whereas, for the OSD opportunities, a decision will be required as to whether the stations are developed/engineered to facilitate OSD. The purpose of this analysis is therefore two-fold:
 1. To estimate the total potential land receipts from both the OSD and residual land opportunities.
 2. To consider the stations where OSD (which has an additional infrastructure cost in terms of station enablement / integration) has merit, based on the potential land receipt / commercial outcome.
- Residual land value feasibility analysis has been undertaken. Unsurprisingly, given the status of the development market in Auckland, the analysis highlights that development is not currently feasible at both DJ and Onehunga. That is, the implied land values (i.e. residual land values) via this analysis sit well below the levels indicated by (albeit, limited) sales evidence (i.e. market land values).
- Therefore, the analysis ultimately relies on market land values to inform the land value ‘today’ (i.e. the ‘floor’ land value scenario), reflecting the likely minimum value of the land in a willing buyer/willing seller transaction. Land development is a multi year process with buyers ultimately taking a medium to long term view when considering an acquisition, and to some extent ‘looking through’ short term trends.
- We then adjust this ‘floor’ value to account for completion of the rail intervention, per the LUTI land value uplift (%) estimate.
- A summary table of the relevant sites and corresponding land values follow and a summary of the methodology is detailed overleaf.

Station	Land area (sqm)		Potential land receipts		Magnitude of value capture opportunity from rail
			‘Floor’ land value scenario, no ALR	Land value ‘as if’ rail complete	
Dominion Junction	Total (OSD + residual land)	59,569	\$240m - \$300m (\$4,000 - \$5,000 psm)	\$360m - \$450m (\$6,000 - \$7,600 psm)	\$120m - \$150m
	OSD site	15,077	\$60m - \$75m	\$91m - \$114m	
	Residual land	44,492	\$180m - \$225m	\$269m - \$336m	
Onehunga	Total (OSD + residual land)	22,780	\$33m - \$45m (\$1,500 - \$2,000 psm)	\$47m - \$63m (\$2,100 - \$2,800 psm)	\$14m - \$18m
	OSD site	11,637	\$17.5m - 23.3m	\$24m - \$32.3m	
	Residual land	11,143	\$15.5m - \$21.7m	\$23m - \$30.7m	

- The table above summarises the total potential land receipts and the split between the land receipt that could be generated from the OSD sites and the residual land sites. While the potential land receipts for the residual land opportunities will ‘exist’ post completion of the rail without intervention, in order to achieve the land receipts for the OSD sites, additional investment (design and engineering cost) will be required to enable these stations for such development. This cost has not been included in the calculations.
- This analysis focuses on land receipts under highest and best use scenarios with no conditions on development use/density or delivery timing. If ALR Ltd targets wider outcomes, such as affordable housing, this would almost certainly have a negatively impact the indicative land receipts shown above, reflecting a tradeoff for wider outcomes.
- Importantly, this is a ‘base case’ analysis and assumes current zoning and building heights consistent with 5 to 6 storeys. It does not, at this point, consider potential upside through rezoning of pushing greater height and therefore is likely to be consistent with a ‘minimum’ development outcome.

Methodology - Dominion Junction example



Two initial approaches are taken to estimate land value (potential land receipts) for OSD / residual land sites:

- A. Sales comparison
- B. Development feasibility analysis.

Given current market conditions (falling / flat apartment prices and commercial rents and rising construction costs and interest rates) development feasibility analysis (Approach B) in most cases results in residual land values that are below market transaction benchmarks.

This is not unsurprising and reflects the current market dynamic. Landowners are unlikely to sell at the land values implied via Approach B, unless under duress.

The highest land value that results from Approach A and B is "advanced" and forms the "floor value" as at today ("C", 2023 \$). This reflects the likely minimum value of the land in a willing buyer / willing seller transaction, assuming there is no ALR.

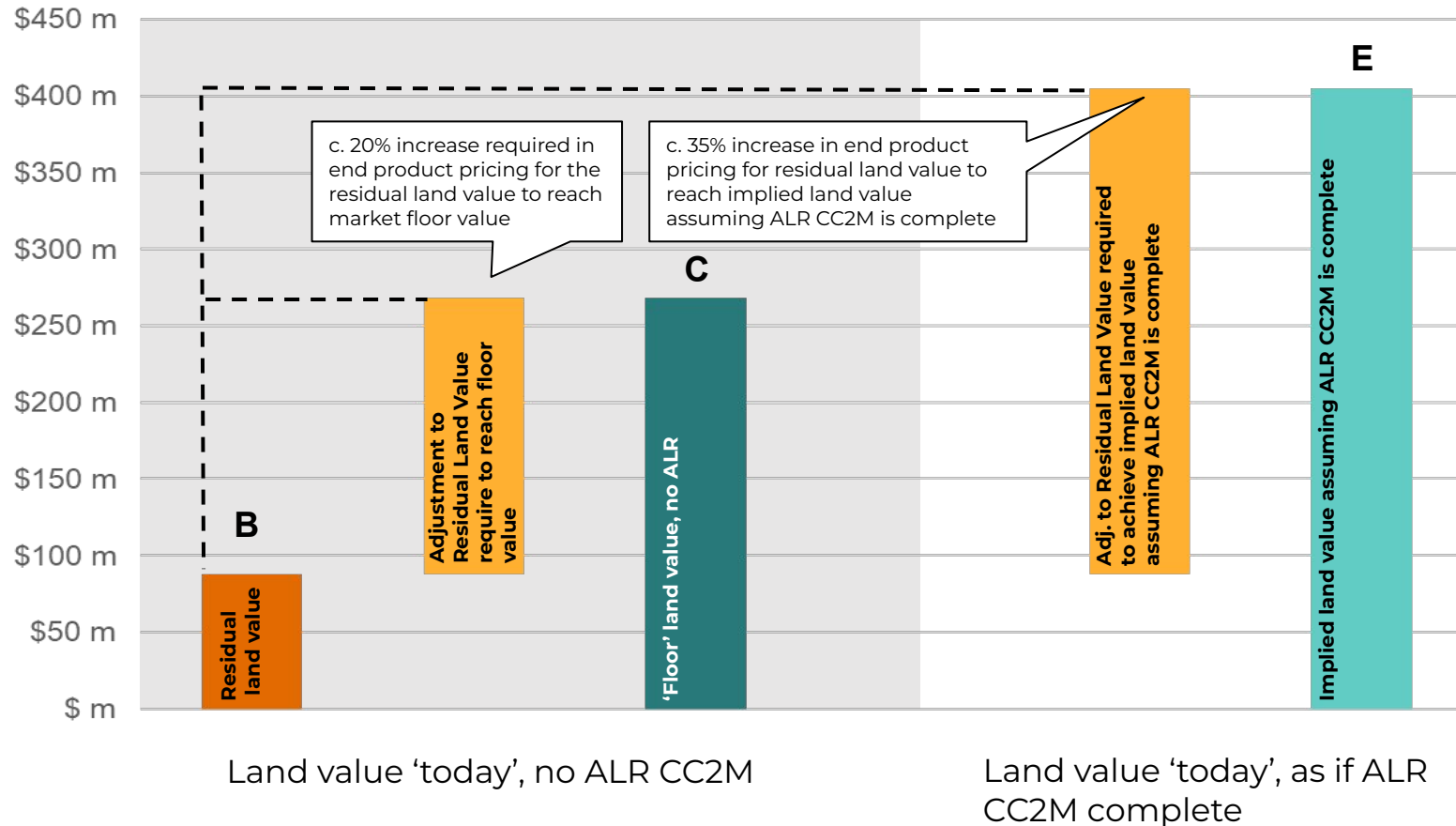
The "floor value" ("C") is then adjusted to account for completion of the rail intervention per the LUTI land value uplift (%) estimate for this location ("D"). LUTI has provided an estimate of land value uplift for this location (within 400m of the station) as at the approximate date of the rail completion. This reflects the increase in land value for residential uses as at 2041 relative to the prevailing 2021 Rating Land Valuations. It shows what the same land would be worth today, with the additional value from accessibility and from the additional surrounding development density if ALR were built and operational, as at 2041. The uplift is expressed in expected value change in real 2021 dollars (no discounting, no future cash flows) and is used as a proxy for 2023 present value. The indicative land receipt ("E") therefore embeds the land value uplift from the rail intervention in present value terms.

The % uplift likely reflects a potential expected outcome for the OSD and residual land. The uplift % considers sites within 0-400 metres of the station. The OSD / residual land is station adjacent and will likely undergo masterplanning / value engineering which could result in a higher land value uplift outcome than estimated for the wider catchment area by LUTI.

For context, the difference between ("E") and ("C") represents value uplift and, therefore, potential value capture opportunity for ALR Ltd as a result of the rail intervention, if the land was acquired for \$240 to \$300m.

Key Messages cont.

Chart illustrating land value 'today' (midpoint of range) at Dominion Junction (with and without ALR CC2M)



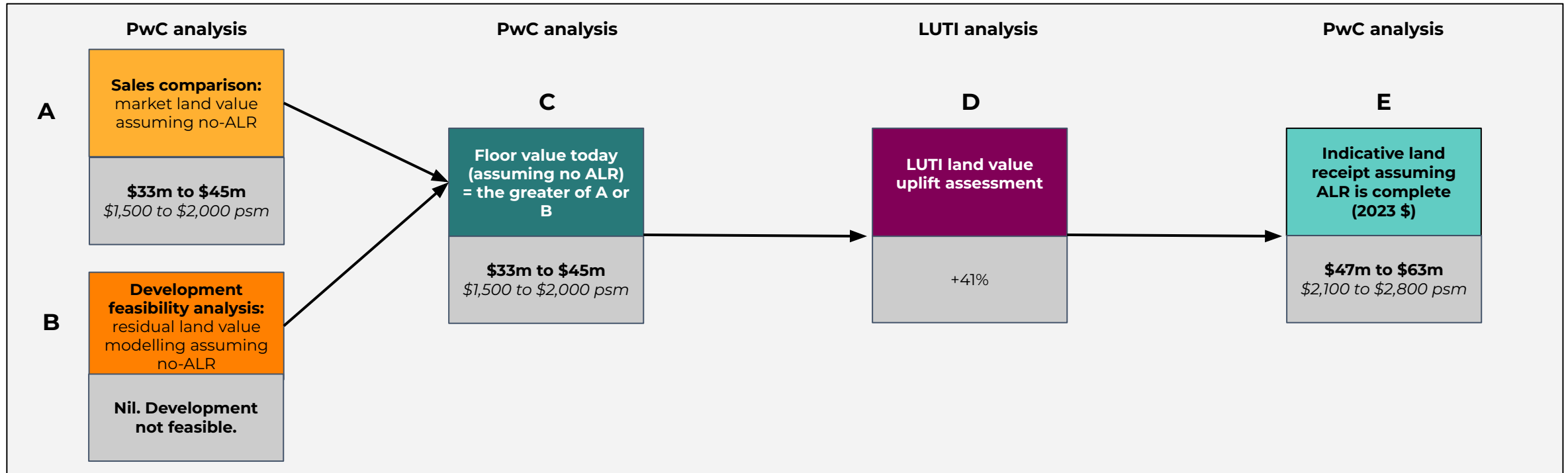
Without ALR, the 'floor' land value at DJ is c. **\$270m** 'as at today' (bar C).

Utilising LUTI's analysis, the implied land value uplift due to ALR intervention (ALR complete and operational) of c. **51%** increases this land value to c. **\$405m** 'as at today' (bar E).

The difference between the 'floor' land value (bar C) and LUTI implied land value (bar E) of c. **\$135m** represents the value created and potential value capture opportunity for ALR Ltd.

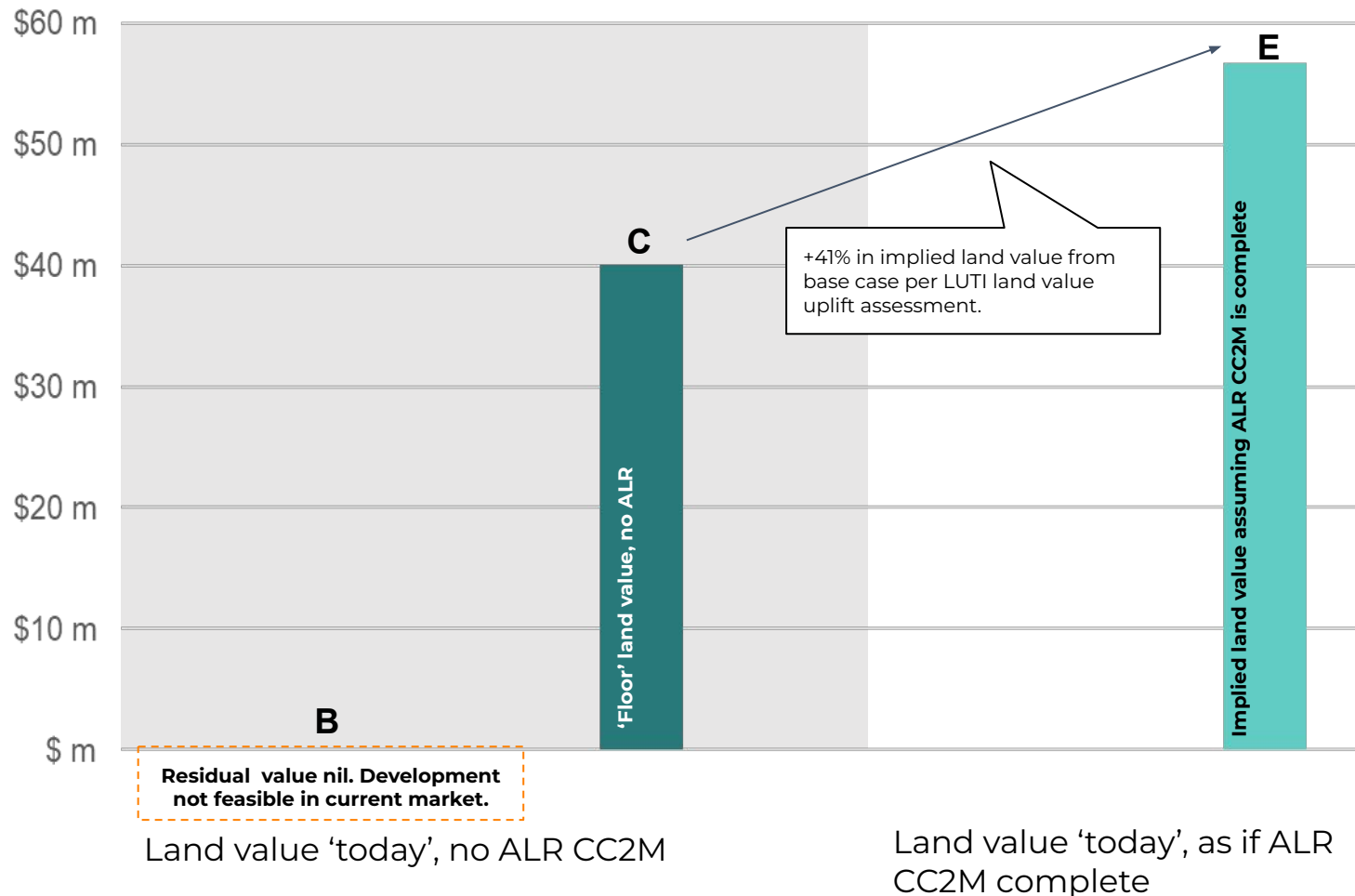
Holding all else equal, apartment pricing and commercial and retail rents would need to increase by c. 35% to achieve the land value uplift that the rail intervention provides i.e. relative to a development not within the station location and without the benefit of the rail intervention. This reflects pricing of c. \$20,200 psm or \$1.4m for the apartment units and c. \$810 psm to \$950 psm for the commercial and retail rentals. This reflects the difference between bar B and bar E.

Methodology - Onehunga example



Key Messages cont.

Chart illustrating land value 'today' (midpoint of range) at Onehunga (with and without ALR)



Feasibility metrics return a nil land value for the Onehunga sites (potential revenue less than costs). This is not surprising given current market conditions and the ratios between potential development revenue and costs.

As such, a floor value of c. **\$40m** 'as at today' (bar C), without any ALR intervention is adopted.

Utilising LUTI's analysis, the implied land value uplift due to ALR intervention of c. **41%** increases this land value to c. **\$57m** 'as at today' (bar E).

The difference between the 'floor' land value (bar C) and LUTI implied land value (bar E) of c. **\$17m** represents the value uplift and potential value capture opportunity for ALR Ltd.

Analysis

Critical assumptions / context

Assumptions / context

Land Use/Zoning

- The analysis utilises the average densities (FAR) and use (residential, retail and commercial) mix as detailed within the Alliance's development studies previously received for both DJ (dated 30 March 2023) and Onehunga (dated 16 June 2023). We have assumed that this reflects the optimal use mix for the sites under the current AUP.
- We have utilised the 'low density' scenarios i.e. the scenarios that comply with the AUP as at today.

Deal Structure

- This is a conceptual analysis only to identify the extent of land receipts that could potentially be realised from OSD and residual land opportunities. The analysis is focused simply on land receipts assuming that no development conditions apply to any land realisation, that would otherwise reduce land receipts.

Enabling Infrastructure

- This analysis assumes that enabling infrastructure costs are not required to be met by the developer (are met by other stakeholder outside of the project) and further assumes that the land is not subject to development controls to achieve wider outcomes (and that reduce margin). I.e. the land receipt estimates assume that each analysed development site:
 - is a titled superlot
 - has sufficient services/infrastructure available to the boundary, but excludes any trunk / network infrastructure costs outside the superlot boundary that would be required to enable the scale/density modelled. We assume these costs are covered outside of the project.
 - will attract standard Development Contributions and Infrastructure Growth Charges.

Rail Infrastructure

- This analysis assumes that rail infrastructure (whether subterranean or above ground) that intersects the sites will be designed and constructed such that the above ground development can be constructed to the height advised and on the same basis as for a site unaffected by any rail infrastructure.
- The analysis assumes that the railway stations and infrastructure are complete and the air rights above the station box are "build ready" (i.e. the hypothetical developer is able to build upwards from the station box platform without incurring extraordinary build costs).

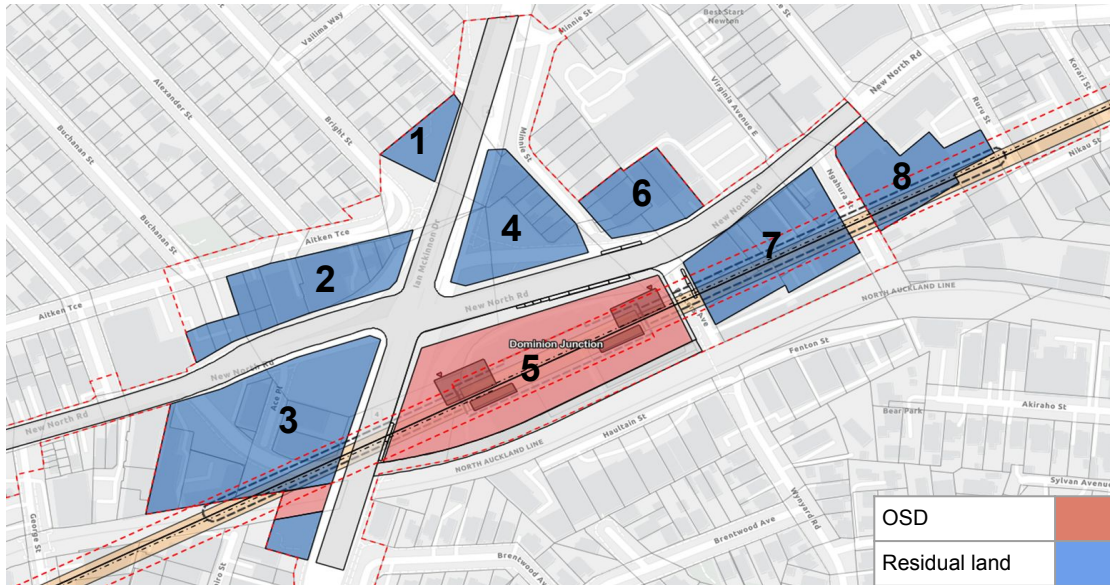
Other

- The analysis does not consider delivery entity operating costs, legal costs and other non-direct development costs that may be incurred.
- This analysis effectively includes an allowance for land holding costs over the development period. However, we are conscious that urban regeneration entities would typically provide a deferred land settlement (i.e. no land holding costs). Where this is the case, all else equal, the residual land value would increase.
- Unless otherwise noted, all figures reported are on a plus GST (if any) basis.
- Please refer to the market analysis report (5 July 2023) for an overview of the market and benchmark evidence utilised in the feasibility analysis.

LUTI land value uplift assumptions

- We have adopted the residential land value uplift % provided by LUTI for Dominion Junction and Onehunga as at 2041 to estimate the increase in land value as a result of ALR CC2M accessibility changes and incremental growth due to additional development density over time. This is an indicative working assumption and is subject to change.
- All values provided by LUTI are expressed in real terms (2021 \$). These are not future cash flows and no discounting has been undertaken

Dominion Junction



- Significant OSD and residual land development anticipated at Dominion Junction station. Eight sites in total.
- The estimated total net developable site area is c. 6 ha, split between the residual land sites comprising c. 4.5 ha and the OSD site comprising a c. 1.5 ha.
- Base case development will comprise no more than 5-6 storey towers (as advised by the ALR urban team and noting the viewshaft restrictions) with a use mix of 24% commercial, 20% retail and 56% residential across all sites, based on the ratios adopted from the previously received Alliance development study. We have assumed that this reflects the optimal use mix for the sites under the current AUP.

Commercial outcomes	Land value 'today'		Magnitude of value uplift
	'Floor' land value scenario, no ALR	Land value post completion of rail intervention in 2041	
All sites	\$240m - 300m (\$4,000 - \$5,000 psm)	\$360m - \$450m (\$6,000 - \$7,600 psm)	\$120m - \$150m
Split by OSD vs residual land parcels			
OSD parcel*	\$60m - \$75m	\$91m - \$114m	
Residual land parcels	\$180m - \$225m	\$269m - \$336m	

Economic outcomes (Base case)

Number of residential units (total new)	869 units
Number of jobs generated	1,731 jobs**
Gross average FAR	2.3:1

*While the potential land receipts for the residual land opportunities will 'exist' post completion of the rail without intervention, in order to achieve the land receipts for the OSD site (Site 5), additional investment (cost) will be required to enable these stations for such development. These costs are not included in this analysis.

**Based on LUTI assumption of 1 job per 35 sqm GFA (commercial and retail)

Dominion Junction

Development assumptions

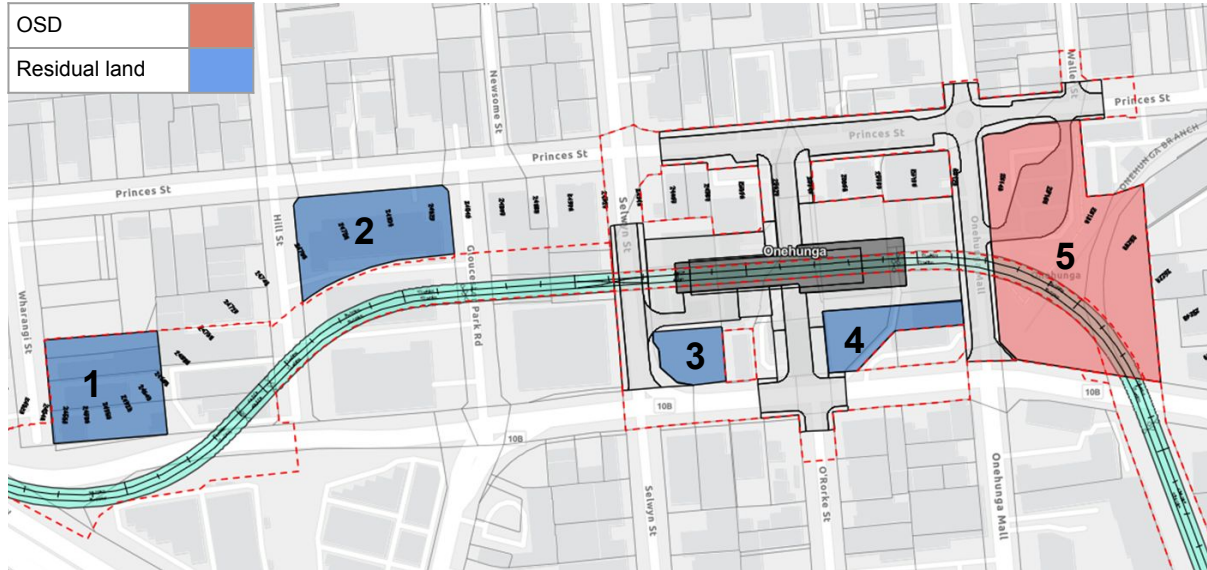
We have initially undertaken a residual land value feasibility analysis, the key assumptions are summarised in the following table. However, as expected, the analysis highlights that in the current market, development is not feasible and the implied land values via this approach sit well below the levels indicated by sales evidence. We have therefore ultimately adopted the market land value as the 'floor' land value.

Sites	Site 1	Site 2	Site 3	Site 4	Site 5	Site 6	Site 7	Site 8	Total
Physical assumptions									
Site type	Residual	Residual	Residual	Residual	OSD	Residual	Residual	Residual	
Site Area (sqm)	1,666	6,271	15,117	5,813	15,077	3,490	7,427	4,708	59,569
Total developable GFA (sqm)	3,832	14,423	34,769	13,370	34,677	8,027	17,082	10,828	137,009
Building height (stories)	6	6	6	6	6	6	6	6	
Average FAR*	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	
Residential component (%)*	100%	87%	54%	89%	0%	100%	78%	75%	
Commercial component (%)*	-	-	32%	-	57%	-	-	25%	
Retail component (%)*	-	13%	15%	11%	43%	-	22%	-	
Residential NSA (sqm)	3,065	10,094	14,907	9,479	-	6,422	10,686	6,497	61,150
Average apartment size (sqm)	70	70	70	70	-	70	-	70	
Number of apartments (units)	43	144	212	135	-	91	152	92	869
Commercial NLA (sqm)	-	-	8,846	-	15,736	-	-	2,166	26,748
Retail NLA (sqm)	-	1,083	3,047	912	9,004	-	2,234	-	16,281

Dominion Junction

Sites	Site 1	Site 2	Site 3	Site 4	Site 5	Site 6	Site 7	Site 8	Total
Revenue assumptions									
Residential sale price (\$ psm incl. GST)	\$15,000	\$15,000	\$15,000	\$15,000	-	\$15,000	-	\$15,000	
Office rent (\$ psm plus GST)	-	\$600	\$600	\$600	\$600	-	\$600	\$600	
Retail rent (\$ psm plus GST)	-	\$700	\$700	\$700	\$700	-	\$700	\$700	
Capitalisation rate (%)	-	6%	6%	6%	6%	-	6%	6%	
Construction costs (excl. GST)									
Infrastructure works within superlot boundaries (\$ psm)	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	
Commercial & retail base build (\$ psm)	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	
Residential base build (\$ psm)	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	\$5,250	
Contingency allowance (%)	10%	10%	10%	10%	10%	10%	10%	10%	
Professional fees and consenting (%)	10%	10%	10%	10%	10%	10%	10%	10%	
Development margin (%)	15%	15%	15%	15%	15%	15%	15%	15%	
Timing (months)	18	24	36	24	36	18	24	24	
Adopted midpoint 'floor' land value (market land value)	\$7.5m \$4,500 psm	\$28.2m \$4,500 psm	\$68.0m \$4,500 psm	\$26.2m \$4,500 psm	\$67.8m \$4,500 psm	\$15.7m \$4,500 psm	\$33.4m \$4,500 psm	\$21.2m \$4,500 psm	Say, \$270m

Onehunga



- Significant OSD and residual land development anticipated at Onehunga station totalling five sites.
- The estimated total net developable site area is c. 2.3 ha, with residual land comprising c. 1.1ha and the OSD site comprising a 1.2ha
- Baseline development will comprise no more than 5-6 storey towers (as advised by the ALR urban team) with a use mix of 27% commercial, 13% retail and 60% residential across all sites, based on the ratios adopted from the previously received Alliance development study. We have assumed that this reflects the optimal use mix for the sites under the current AUP.

Commercial outcomes	Land value 'today'		Magnitude of value uplift
	'Floor' land value scenario, no ALR	Land value post completion of rail intervention in 2041	
All sites	\$33m - \$45m (\$1,500 - \$2,000 psm)	\$47m - \$63m (\$2,100 - \$2,800 psm)	\$14m - \$18m
Split by OSD vs residual land parcels			
OSD parcel*	\$17.5m - 23.3m	\$24m - \$32.3m	
Residual land parcels	\$15.5m - \$21.7m	\$23m - \$30.7m	

Economic outcomes (Base case)

Number of residential units (total new)	261 units
Number of jobs generated	316 jobs**
Gross average FAR	1.5:1

*As previously discussed, while the potential land receipts for the residual land opportunities will 'exist' post completion of the rail without intervention, in order to achieve the land receipts for the OSD site (Site 5), additional investment (cost) will be required to enable these stations for such development. These costs are not included in this analysis.

**Based on LUTI assumption of 1 job per 35 sqm GFA (commercial and retail)

Onehunga

Development assumptions

We have initially undertaken a residual land value feasibility analysis, the key assumptions are summarised in the following table. However, as expected, the analysis highlights that in the current market, development is not feasible and the implied land values via this approach sit well below the levels indicated by sales evidence. We have therefore ultimately adopted the market land value as the 'floor' land value.

Sites	Site 1	Site 2	Site 3	Site 4	Site 5	Total
Physical assumptions						
Site type	Residual	Residual	Residual	Residual	OSD	
Site Area (sqm)	4,010	4,163	1,170	1,800	11,637	22,780
Total developable GFA (sqm)	6,015	6,245	1,755	2,700	17,456	34,170
Building height (stories)	5	6	6	5	5	
Average FAR*	1.5	1.5	1.5	1.5	1.5	
Residential component (%)*	100%	100%	40%	40%	52%	
Commercial component (%)*	-	-	34%	34%	35%	
Retail component (%)*	-	-	27%	27%	13%	
Residential NSA (sqm)	4,812	4,996	558	859	7,265	18,490
Average apartment size (sqm)	70	70	70	70	70	
Number of apartments (units)	68	71	7	12	103	261
Commercial NLA (sqm)	-	-	471	725	4,948	6,144
Retail NLA (sqm)	-	-	281	432	1,314	2,027

Onehunga

Sites	Site 1	Site 2	Site 3*	Site 4*	Site 5	Total
Revenue assumptions (plus GST)						
Residential sale price (\$ psm incl. GST)	\$13,000	\$13,000	\$11,800	\$11,800	\$13,000	
Office rent (\$ psm plus GST)	-	-	\$450	\$450	\$500	
Retail rent (\$ psm plus GST)	-	-	\$600	\$600	\$650	
Capitalisation rate (%)	-	-	7.0%	7.0%	6.5%	
Construction costs (excl. GST)						
Infrastructure works within superlot boundaries (\$ psm)	\$250	\$250	\$250	\$250	\$250	
Commercial & retail base build (\$ psm)	-	-	\$4,000	\$4,000	\$4,000	
Residential base build (\$ psm)	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	
Contingency allowance (%)	10%	10%	10%	10%	10%	
Professional fees and consenting (%)	10%	10%	10%	10%	10%	
Development margin (%) - residential	17.5%	17.5%	17.5%	17.5%	17.5%	
Development margin (%) - commercial	15%	15%	15%	15%	15%	
Timing (months)	24	24	18	18	36	
Adopted midpoint 'floor' land value (market land value)	\$7.2m \$1,800 psm	\$7.5m \$1,800 psm	\$1.8m \$1,500 psm	\$2.7m \$1,500 psm	\$20.9m \$1,800 psm	Say, \$40m

Thank You



DRAFT FOR DISCUSSION