MANUKAU GOLF CLUB
POSITION & OPTIONS REVIEW

1 Great South Rd
Manurewa
Auckland

29 NOVEMBER 2010

MAIER ENTERPRISES LTD
REAL ESTATE KNOWLEDGE

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1.0 EXECUTIVE SUMMARY

The Manukau Golf Club (MGC) faces interest costs and maintenance requirements higher than what it is currently earning. Addressing its cash flow and debt situation is prudent at this time.

Six primary options have been considered for MGC:

1. Stay in Takanini and Do Nothing.
2. Increase subscriptions or create a Sinking Fund.
3. Sell the Benion Block
4. Sell some land along the Great South Road frontage.
5. Sell all of the Takanini land and relocate the course.
6. Sell all of the Takanini land and redistribute the membership and funds to other golf courses in Auckland (or merge with another club).

Of these choices 'Do Nothing' is not seen as prudent given the club's debt and interest cost levels, and increasing subscriptions is generally considered to be the least favourable choice from the membership's point of view. However, a sinking fund is a prudent option to enable future maintenance and is an option which can be undertaken alongside other options (it is not mutually exclusive).

Given these options, MGC needs to decide its preferred course of action in order to progress its options. Namely, does the club wish to:

A. Solve its current financial position and remain in Takanini.

B. Sell its land and relocate to a new site.

C. Sell its land and redistribute its members and money to other clubs (or merge with another club).

The conclusion of this review is that:

- Raising subscriptions to cover shortfalls and pay for maintenance would cost approximately $350 per member per year.

- Indicative offers to purchase the Benion Block and Great South Road frontage land have been made and appear to be of sufficient dollar value to enable the Club to pay down debt and pay for maintenance requirements. Sale of this land will have impacts on the course but these can likely be resolved through good design. If a partial land sale along these lines is chosen, MGC should start a competitive market process to obtain the best price for any land it sells. MGC requires approximately $2.5 to $4.5 million from a land sale (net) to repay debt and defray future maintenance costs.

- If the club relocates, all money spent building a new golf course should be considered 'sunk cost' as golf courses themselves have little or no intrinsic value – only their land has value. The end value of the new course will be about the same as what it costs to buy the new land in the first place – regardless of the approximately $20 million spent improving the land. If relocation is the Club's preferred option MGC should ensure it is obtaining the maximum value possible for its existing asset and retain as much of this money as a future capital buffer as possible.

- The cash value of the Fletcher Residential Ltd (FRL) offer is not clear from the Heads of Agreement and as such it is not possible to evaluate the comparative merit of the offer against the current valuation.

- Given the general pressures on golf club memberships and revenues generally, selling the land and redistributing members and proceeds to other clubs has distinct advantages and significantly fewer risks compared to building a new golf course.

- If the club remains in Takanini a sinking fund should be established, despite the reluctance to raise subscriptions. This would cost approximately $150 per member per year but could be more or less depending on the amount raised through land sales.

The MGC board and membership should decide on which primary path outlined above they wish to embark as this is easier than "comparing apples and oranges" (choice A, B, or C).

The timeline for completing a partial sale of either the Benion Block or Great South Road frontage land is approximately 4 to 6 months, and the timeline for resolving outstanding items in the FRL offer is also approximately 6 months. Given the significant improvements made by the club's board and management in the operation and governance of the club these timelines appear to be feasible. However, it is in MGC's best interest to determine a course of action and work towards that goal in a timely manner. Otherwise, interest costs will continue to compound and raise the level of capital required to pay down debt as time goes on.

2.0 BACKGROUND

The Manukau Golf Club (MGC) is currently reviewing its financial position and operational options. During late 2009 and early 2010 MGC reorganized its management following a brief period of losses and accumulating debt. In 2010 the Club began a review of its financial position and assets including several unsolicited offers to purchase part or all of the club's land.

The objective of the review is for the club to be in a position to make an informed judgement on their financial and operational options going forward including the location and size of the golf course itself.

This report is to review options for how MGC and its members can continue to prudently manage their operation into the future and covers the following items:

1. The Club's current financial position.
2. Options to remedy the forecast cash flow shortfall.
3. Land Sale, Lease, or Course Relocation Options.
4. Key Decision Criteria for club members.
5. Next Steps for the Club.

Various documents have been provided by MGC for this review and a list of these, and other sources, are located in the appendices.

MGC has been incurring an annual operating loss of $200,000-300,000 over recent years and currently has approximately $2.3 million in debt on which interest is compounding. It is understood that this arose primarily from unfunded course development and not trading losses.

The club's primary asset is the Takanini land which was valued by Darroch Valuations at $[X] million in November 2009.

Several offers have been presented to the club for its assets over recent years. These offers have been generally preliminary in nature and have sought to engage MGC in a subsequent due diligence and sale process. MGC began a process of evaluating some of these offers more seriously in late 2009 and early 2010 and has appointed members of its board to a negotiation sub-committee for the purpose of investigating more formal offers with one of the parties. At the same time MGC's board and management have requested a review of their overall financial and land options.

Valuations and indicative land value models have been prepared by several sources and this report reviews the work to date, comments on options for balancing the club's operational budget, and collates financial forecasts to place the various work and offers into one report.

3.0 CURRENT FINANCIAL POSITION

Following a poor financial year in 2009, the club has operated well during 2010 and restructured its management. However, MGC continues to run at a loss and this will not be remedied without changes to the club's debt and or cash flow.

Key Points:

- Approximately $2.3 million of current debt.

- $2.5 to $3.0 million required for short-term maintenance (1-5 years).
- Current interest costs are not being met (debt is increasing and cost is compounding).

The required cost of servicing the club's debt will continue to increase if debt is not reduced or revenue increased. This will become worse if the 1-5 year maintenance requirements are debt funded. While the value of the club's land may continue to increase in the future, the compounding cost of debt will rapidly reduce MGC's financial flexibility and options over time. Given the current economic climate land prices may stay flat in the short-term (1-5 years), despite having increased rapidly over the past decade.

The following graph shows the potential financial position of the club over the next 10 years if costs continue to accrue at the current rate, including the required maintenance.

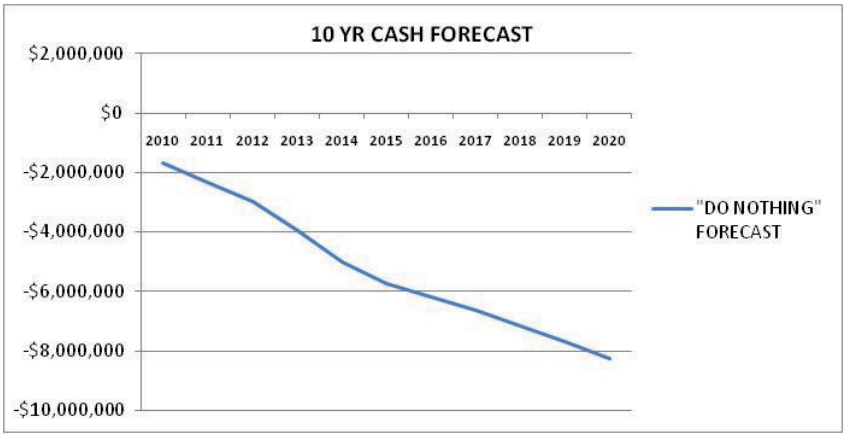

FIGURE 1: "DO NOTHING" FORECAST

As such, the Club has a choice between servicing its debt and funding its upgrades through two main methods:

- Increasing subscriptions (revenue).
- An asset sale.

Sale and relocation of the entire course, as opposed to sale of part of the club's land, would represent the most significant change of the possibilities envisaged. Pros and cons of the various options are considered below.

However, the primary question is whether MGC would prefer to stay in Takanini or sell and relocate. Options for this include raising subscription prices, selling some land to pay down debt and remain in Takanini, or sell the Takanini site and relocate or disband. Selling the entire club would resolve the current issues of debt and upgrades – albeit by choosing the option with the largest degree of change.

3.1 CURRENT CASH FLOW ISSUES

Most Club operations are largely break even on an ongoing basis, including:

- Membership fees & Administration Costs.
- Golf Division.
- Bar Sales.
- Sundry Income

These items make a small positive contribution to the accounts on an ongoing basis.

The club currently has two primary items which contribute to its annual losses:

- Depreciation Costs (essentially the cost of future maintenance).
- Finance Costs (interest / loans).

Finance costs are a 'real' cash item and represent an expense which must be paid. Depreciation costs are a 'book' item and do not have to be 'paid' annually. However, depreciation costs do represent physical infrastructure which must be replaced or upgraded and do represent money which the club will require at a point in the future. These two items will be addressed separately.

3.2 DEPRECIATION

Without a sinking fund or capital replacement fund the club faces a potential future cash requirement which it is not currently saving. A convenient assumption for the size of the sinking fund required is to set the sinking fund equal to the annual depreciation cost. The estimated cost of replacement and upgrades is approximately $2.5-3.0 million and is needed over the next 5 years.

Funding the $2.5-$3.0 million in repairs is a requirement of staying at the current location.

Establishing a sinking fund is also suggested as a method to avoid being caught without money to pay for repairs in the future.

3.3 FINANCE COSTS

The club is expected to run an interest cost of some $144,000 for 2010. This is up from $132,000 in 2009 and can be expected to continue to increase if the club continues as it is.

There are two ways to address the interest cost shortfall and avoid the scenario in Figure 1:

- Increasing subscriptions (revenue) to match the cost of finance.
- Asset sale.

Approximately $200,000 per year would need to be raised to cover the existing finance cost and the additional finance required for the repairs and upgrades if these were funded solely through debt. Part of this would cover the additional debt required. This equates to approximately $200 per

member.[1] However, this approach would see the club increase its debts to approximately $4.5 million even though the club would then be meeting its interest bill.

3.4 FINANCIAL ISSUES & STAYING IN TAKANINI

If the Club wishes to remain in its current location, sale of part of its land could be undertaken instead of increasing subscriptions.

	Stay in Takanini	Sell Part of Course
Interest Cost or Pay Down Debt	$200 / member (or $400 / full member)	$2.5 million
Maintenance	(same as Sinking Fund)	$3.0 million
Sinking Fund	$150 / member (or $300 / full member)	$150 / member
TOTAL	$350 / member (or $700 / full member)	$4.5 million plus $150 / member

TABLE 1: COMPARISON OF CHOICES TO STAY IN TAKANINI

Approximately $2.5 to $4.5 million is required to be raised to stay in Takanini and mitigate the current financial situation. Some savings will occur due to paying off debt and not paying interest – which reduces the amount required from a land sale to less than the sum of $2.3 million and $3.0 million ($5.3 million). An additional annual levy would still be prudent to provide a sinking fund. The amount of the sinking fund should be approximately $150,000 per year, or about $150 per 1000 members.

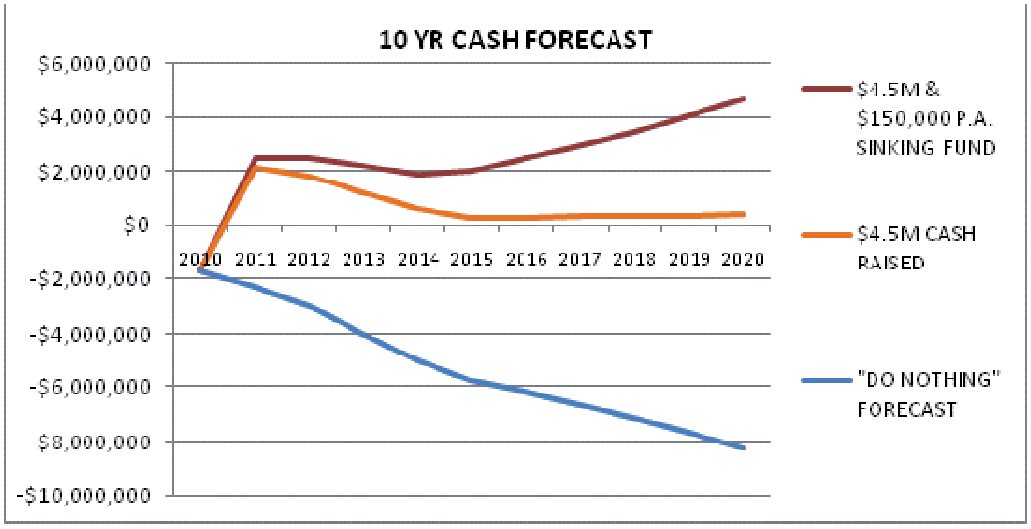

FIGURE 2: 'STAY PUT' FINANCIAL SCENARIOS

[1] If this approach were chosen more detailed work should be undertaken to determine the precise finance cost per member.

In sum, the more the club can raise above $4.5 million the better the 10-year 'stay put' scenario shown in the upper two lines in Figure 2.

If a sinking fund is also created then the ongoing future cash balance of the club can be expected to be higher than if no fund is raised and debt and upgrades are only funded through the asset sale (top and middle lines in Figure 2). The minimum needed to stay in Takanini is approximately $2.5 to $3.0 million if a sinking fund is also created.

4.0 LAND SALE, LEASE, OR RELOCATION OPTIONS

Several unsolicited (indicative) offers for part or all of MGC's land have been made over recent years. Varying degrees of detail have been provided with the offers. The club has invested some time to understand one of the offers better in 2010 and has been provided with a Heads of Agreement (HOA) to consider. The HOA outlines the terms of the proposal and a process to prepare a full and formal offer. Some of the other offers contain broadly the same level of information (an indicative price and process forward) but less time has been invested by MGC on the other offers.

The key differences between the options available are:

1. Does MGC wish to resolve its current financial position and remain in Takanini.
2. Does MGC wish to relocate to a new site.
3. Does MGC wish to disband and redistribute its cash and members to other clubs.

As noted, to date there has been extensive discussion as to whether selling the Benion Block or a portion of land near Great South Road would generate sufficient cash to enable the club to stay in Takanini and remain financially viable. Several reports have been prepared to look at this issue and several expressions of interest from potential purchasers have been sought.

Corresponding to the main choices above, the results of the work to date are:

1. The indicative offer prices and review of the studies undertaken suggest that a sufficient price could be obtained to enable the Club to stay in Takanini.
2. An offer has been made to relocate the club to a new site. However, it is not clear from the HOA if the club is receiving fair value in kind for the transaction. The details of this offer are yet to be worked through.
3. Many clubs in Auckland appear to have declining membership and issues with raising sufficient revenue to pay for operating costs. Selling the MGC land and redistributing the members to other existing courses would decrease competition for memberships overall and may have distinct advantages for existing members of MGC. This would be a very 'sustainable' option for golf generally and would offer significant benefits to existing club members.

The value of selling the Benion Block or Great South Road Land ("GSR Land") components of the club has received considerable debate within the club. At present, MGC has received several expressions of interest for the Benion Block or the land adjacent to Great South Road. These offers are within the ballpark range required to repay current debt and fund some or all of the known maintenance if the Club wishes to stay in Takanini.

The HOA from Fletcher Residential Ltd (FRL) offers to pay the club a sum of $12 million and relocate the club to a newly constructed course in south Auckland in exchange for all of the Club's land in

Takanini. The total value of this offer is not yet clear and requires further work to detail the terms of the offer.

The ultimate test of value is what the market will pay and the offer prices made to date indicate that selling the Benion Block or land adjacent to Great South Road would provide the levels of capital required in Figure 2 above.

4.1 PARTIAL LAND SALE OPTIONS

The club has been provided various opinions regarding the potential sale value of the Benion Block and GSR Land. The most relevant figures are the values offered by potential purchasers.

Based on the offers received and a review / critique of the reports to date, sale prices appear to be in the range that the club would require to remain in Takanini and pay down debt and fund maintenance requirements.

The offers received to date generally constrain themselves in one way or another – for example by offering to reduce the number of residential sections created on the Benion Block. To maximize the value to be obtained from a land sale MGC should allow the market (and the inherent RMA process / District Planning rules) to dictate the best level of density for the site. MGC should generally restrict itself to approving aesthetic aspects of the proposals (boundary landscaping and safety fencing) in order to obtain the best value for its land.

The Club's valuation (Darroch Valuers) and Harrison Grierson (H&G) reports contain hypothetical valuations and do not necessarily consider how to obtain the highest mix of uses on the site under the current planning framework. H&G have done further work for FRL beyond their report to MGC to consider more intensive and mixed use scenarios including residential, retirement, and some commercial uses. A valuation for these other scenarios has not been provided by H&G.

The club has not undertaken its own development scenario to date.

In short, several issues have been raised with the approach and pricing used in the H&G report. A review of H&G's development model using further engineering price input and cross reference to other section sale prices shows H&G has been conservative. More accurate valuations are contained in Darroch and the offers expressed by potential buyers.

One or more additional uses beyond only residential subdivision appear to be feasible under the current zoning rules. These have not been modelled by Darroch or the H&G report to MGC and require planning and valuation input to more accurately assess. These additional options are discussed further in Appendix A.3 and A.4.

As such, should the club wish to sell a portion of its land in order to remedy the current financial situation there are several viable choices. Specific dollar values and payment timeframes, as well as resolving impacts on the edges of the fairways, would need to be worked through with a purchasing party as part of the land sale.

To mitigate the risk of damage to sites adjacent to the club (golf ball damage) caveats should be entered against the land sold to restrict liability to the club and appropriate fencing or screening constructed along particular boundaries. Costs for such fencing are included in the H&G scheme.

4.2 RELOCATION OPTIONS

Relocation options considered include:

- Selling the land and leasing a new course.
- Selling the land and constructing a new course.

The key criteria for relocation include: appeal of the new site to the membership, financial advantages of relocation, and value received for the land to be sold.

Darroch is clear that golf courses themselves have little intrinsic value and all of their comparable examples show that courses cost more to build than they are worth upon resale.

As such, leasing a block of land would give the club no ownership of the underlying land as well as costing a significant amount to construct. The ongoing financial burden placed on the club to pay the ground rent would likely be prohibitive and contain significant future risks. At the end of the day the club would either need to purchase land and pay to build yet another golf course (which would again have no intrinsic value) or ultimately purchase the land under its new course. Leasing does not appear to offer any advantages and has significant risks.

Construction of a new course entails significant cost and time risks. While these can likely be outsourced or managed, MGC would likely need to engage experienced construction oversight and budget control to represent its interests.

The primary issue with sale of the Club's land is obtaining a fair total value for the existing site. As the FRL offer does not contain a clear offer price (total compensation to be paid) it is very difficult to evaluate whether the FRL offer is higher or lower than the valuation placed on the club's land.[2]

The net result of constructing a new course is that MGC would reduce its net asset value by the cost of constructing the new course (say from [X]). However, the new position would include a significant cash holding and this would put the club in a very different practical situation than it currently faces.

[2] Should MGC's land be developed as a whole, the zoning rules for MGC's land contemplate the possibility of mixed density residential and a comprehensive range of uses such as retirement villages, childcare centres, and potentially small scale support retail or home enterprises. This creates the possibility that MGC's land could be more intensively developed and have a higher final realization value than it may otherwise appear.

5.0 COMPARISION OF OPTIONS

The following matrix compares the options and a set of decision criteria to show the differences between the choices facing the club with the white boxes (and highest numbers) ranking as the best options. This is indicative only.

OPTION		TOTAL
STAY IN TAKANINI	RAISE A SINKING FUND	45
	SELL BENION BLOCK	39
	SELL GSR FRONTAGE	35
	SELL HARBOUR SITES	27
	DO NOTHING	21
SELL	RELOCATE	39
	AMALGAMATE	31
	LEASE NEW SITE	25

TABLE 2: OPTIONS COMPARISON TABLE[3]

Table 2 allocates a low score to unattractive choices and a high score to more attractive choices. The highest scoring option is to raise a sinking fund, followed by selling some of the Great South Road frontage or the Benion Block, but also allocating a high score to the Relocation option. The lowest scoring options are leasing a new site and doing nothing.

While the relative merits of these choices are subjective, the table serves to illustrate that both Selling the Takanini land, or Staying in Takanini, have merits. However, relocating entails a larger overall level of change for the members.

The purpose of this table is simply to illustrate some criteria and a way of comparing the options. The criteria, weighting, and relative scoring are subjective.

6.0 TIMEFRAMES & NEXT STEPS

The indicative timeframes for completing a partial sale are as follows. To de-risk and maximize the sale process the board should obtain approval for a sale from the membership prior to seeking binding offers from the market. This approval could be given subject to meeting certain criteria such as minimum price. Having surety of process is important for purchasers who are less likely to undertake the necessary time and investigation costs if there is no certainty that the best offer will be accepted.

If MGC wishes to poll its members to determine the preferred options for taking the club forward, then a poll could be established along the following lines. This would place the choice with the members and the board could then undertake a series of binding resolutions to enable the appropriate course of action.

“Please list your preference of how to take the club forward:

A. Address the club’s current financial position and remain in Takanini.

B. Sell the club’s land and relocate to a new site.

C. Sell the club’s land and redistribute its members and money to other clubs.

[3] The sinking fund can be created alongside some of the other options, and as such is not mutually exclusive.

"Based on your preference, please indicate your preference of how to address the club's situation by numbering the following choices from 1 (highest preference) to 6 (lowest preference).

___ Stay in Takanini and Do Nothing.

___ Increase subs or create a Sinking Fund.

___ Sell the Benion Block

___ Sell some land along the Great South Road frontage.

___ Sell all of the Takanini land and relocate the course.

___ Sell all of the Takanini land and redistribute the membership and funds to other golf courses in Auckland (or merge with another club)."

The timeframes could be as follows:

December-March 2011	Background materials provided to members and a poll undertaken to determine members' preferences.
February-March 2011	Board receives results of poll indicating members' preference for way forward.
March 2011	Board holds a meeting and receives approval from membership to sell some or all land subject to minimum criteria being met.
March 2011	Board appoints a subcommittee or agent to run sale process.
April 2011	Potential buyers are contacted and offers are prepared. If this process is run as an agency campaign the timeframe could be longer, say 1 month longer.
May 2011	A preferred offer is selected and any conditions are negotiated. A deposit is paid.
May / June 2011	Offer goes unconditional after, say, 30 days due diligence and settlement occurs thereafter.
TOTAL TIME	Four to six months depending on time allowed for polling.

TABLE 3: TIMEFRAMES FOR PARTIAL SALE

Overall, the next steps for MGC are as follows:

1. Determine if the club prefers to stay at Takanini or relocate.
2. Obtain approvals from the membership to undertake and negotiate the sales process.
3. Work to agree the outstanding items in the HOA ***or*** identify and obtain offers from interested parties.

If a full sale of the site is sought MGC should form a view of the potential realization value of the site based on a medium density subdivision scheme in accordance with the District Plan rules. This scheme may include a mix of uses and lot sizes including clusters of medium density housing (townhouses), retirement uses, and ancillary uses such as childcare centres. This scheme should be costed and valued and a financial development model built to determine an appropriate net present value of the land.

8.0 KEY ASSUMPTIONS

The following assumptions have been made during this review:

- MGC would not pay capital gains tax or income tax on land sales.
- Borrowing costs would remain at approximately the current weighted average level of approximately 7.5%.
- The membership would prefer to minimise subscription prices and pursue other methods of resolving its current financial situation.

AUTHOR _____

NICOLAS MAIER

DATE **29 Nov '10**

APPENDICES

A.1 BIBLIOGRAPHY

1. 2009 Manukau Golf Club Annual Report
2. Darroch Valuation of Manukau Golf Club, 13 November 2009.
3. [X], “Presentation to Manukau Golf Club”, June 2010.
4. Harrison Grierson “Manukau Golf Club Partial Site Development Options Assessment Report”, 27 September 2010.
5. Manukau Golf Club “Treasurer’s Report, September 2010”.
6. [X] “Relocation Proposal”, email 1 September 2010.
7. Recent sales evidence of industrial land in greater south Auckland provided by Bayleys Research.

A.2 CURRENT FINANCIAL SITUATION

DEPRECIATION

The club has a depreciation cost of approximately $100,000 - $150,000 each year. With 1,000 members this equates to an annual shortfall in the accounts of approximately $150 per member[1]. A sum equal to this should be set aside each year to pay for replacements in the future as depreciated items wear out and need replacement or repair. The club is now facing maintenance costs of $2.5 to $3.0 million over the next five years and has not set aside funds to pay for these.

Two options exist to fund the necessary repairs and upgrades required:

1. Increase membership costs to establish a sinking fund.
2. Raise the necessary funds through debt or asset sales.

Incurring debt is not a prudent option for the club given the fact that the club is also not currently meeting its finance costs.

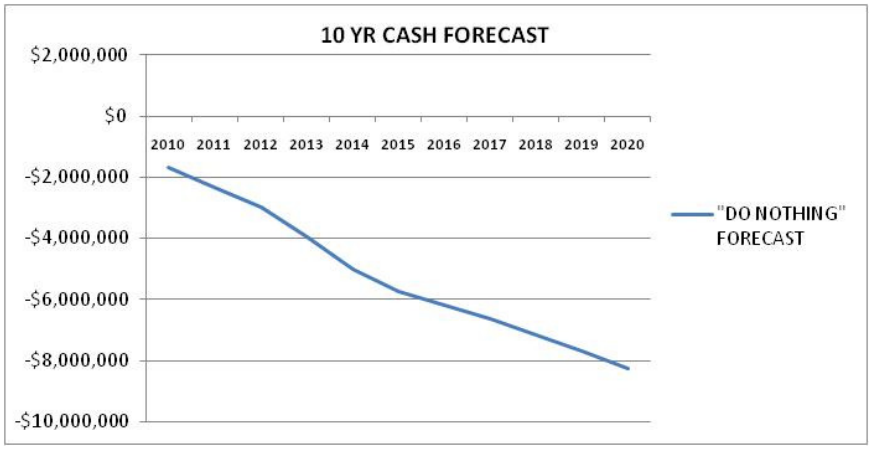

FIGURE A.1 – "DO NOTHING" SCENARIO

MGC currently requires approximately $150,000 per year to meet its interest bill. If the required maintenance were debt funded interest costs would rise to approximately $200,000 to $300,000 per year, or some $200 - $300 per member at current interest rates.

FINANCE

The club's current debt of approximately $2.3 million has an annual interest cost of $100,000 to $150,000. This is currently increasing and compounding. To meet this cost would require an increase of approximately $150 to $200 per member per year.

[1] All 'per member' calculations are evenly divided to show an indicative cost per member. They can be re-calculated or apportioned based on membership type if required.

FUNDING OPTIONS

If both the sinking fund of some $150 per member and finance fund of $200 per member were created the club's debt increase in the short term (1-5 years) but decrease as these levies repaid the drawdown.

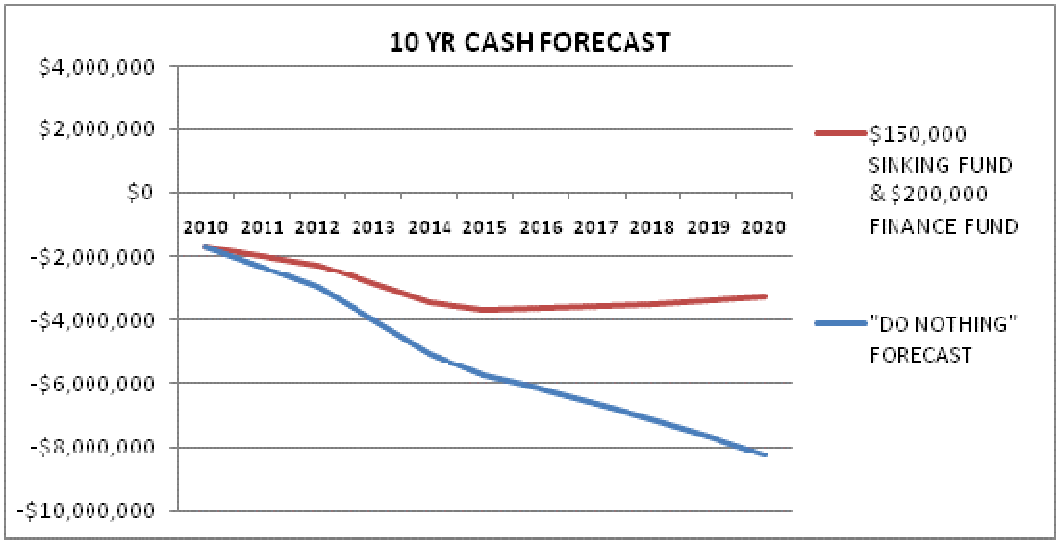

FIGURE A.2: SINKING FUND & FINANCE FUND

The impact of raising capital to repay debt and fund replacements and upgrades is significant. A sum of between $2.5 and $4.5 million would be sufficient to remove existing debt and defray the costs of replacements and upgrades.

Depending on the sum raised through a land sale, some level of finance funding could be required. Assuming the full $4.5 million could be raised the club would reach a position of approximately no debt and run small surpluses.

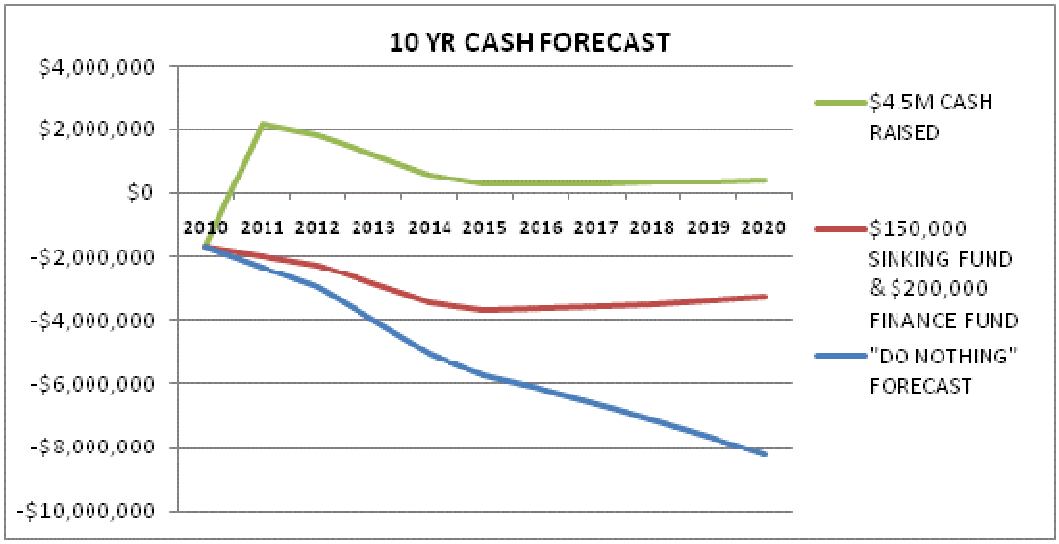

FIGURE A.3: CASH INFUSION

An optimal position for the club would see funds raised and the creation of a sinking fund to pay for future maintenance requirements. This would provide a reserve fund and help avoid the need for additional asset sales in the future to pay for future replacements. Continued good governance and management also play a strong part in ensuring sustainable operations.

Figure A.4 shows the impact of a capital raising and establishment of a sinking fund at approximately the level of asset depreciation (about $150 per member). The key aspect of this approach is the sinking fund.

The amount money raised to repay debt and pay for replacements and upgrades affects the position in the medium term (3 to 7 years) – but would suffice at somewhere between approximately $2.5 and $4.5 million.

These scenarios assume membership revenue is held at numbers similar to today.

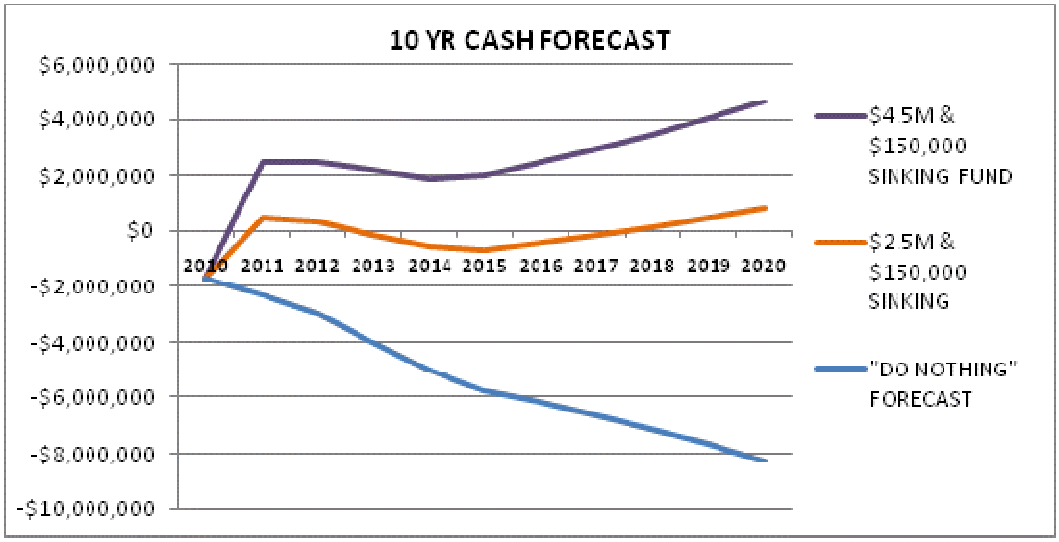

FIGURE A.4: CASH INFUSION & A SINKING FUND

A.3 REVIEW OF HARRISON GRIERSON REPORT

Harrison Grierson completed a partial site development report on the Manukau Golf Course site in September 2010. H&G considered two commercial development options (1A & 1B) along the frontage to Great South Road and two residential development scenarios around the Benion Block (2A & 2B). The commercial options by themselves would likely require plan changes due to zoning conflicts. The H&G report indicated that under all scenarios the end value to the club after selling the land and paying for the necessary clubhouse relocations or fairway adjustments was effectively nil.

COST REVIEW

The costs and development scenarios were reviewed briefly with a civil engineer and discussed with the authors of the H&G report. H&G have been conservative on their cost estimates so overall this lowers the indicative value to the club. While this approach is appropriate for a high level feasibility review, it does not reflect the actual market of the land and, as such, makes the club's position appear less attractive than it may be.

The reasons for the cost difference are that H&G appears to have used costs in several instances which represent construction conditions at the more difficult end of the construction spectrum. For example, if there are complex geotechnical conditions or the land is contaminated (past use of pesticides, herbicides, etc) then the earthworks costs are more likely in the ballpark H&G indicates. As this seems unlikely given the past use of the land and generally flat contour, then earthworks could be up to 1/3 the price (saving up to $0.5m on that item). Not all the items in the H&G report are of such a large magnitude, and many of the items appear close to likely potential cost. However, there are enough areas for cost reduction to suggest H&G's estimate is too low overall.

REVENUE REVIEW

Bayleys Research has provided recent sales data for industrial blocks of land in south Auckland for the purpose of creating a ballpark comparison to the H&G assumptions for industrial / commercial land. The MGC Darroch valuation provides market residential value comparisons to test H&G's assumptions.

There were 5 sales with values between $170 and $380 psm for vacant industrially zoned land with an average sale price of $280 psm and an average size of 1.2ha. Sales were during 2009 and 2010.

At $[X] psm the market values for industrial land (once rezoned) are [X]% higher than the $[X] value assumed by H&G – depending of course on the final uses permitted. Commercial land is generally valued more highly than industrial land but this depends on the location and permitted uses of the land. This indicates that the H&G revenue line is also conservative and could result in H&G's Options 1A and 1B realizing a higher net amount.

Darroch suggested sections sales between $150,000 and $270,000. Using these figures in the H&G model provides a substantially higher end value to MGC.

	Revenue Re-Estimate
Options 1A & 1B	Say $[X] psm
Options 2A & 2B	Say $[X]

TABLE A.1: REVENUE RE-ESTIMATE

OTHER COMMENTS

H&G's brief, and subsequently their report, was to only consider commercial uses for the land on the Great South Road frontage and typical residential subdivision on the Benion Block – not to investigate the highest and best use for the land. Upon brief review of the Residential 4 zone rules (which is the golf course's zoning), there are a range of other activities contemplated by the Papakura District Plan for which higher levels of intensity may be achieved. These would not require plan changes as required in the H&G commercial scheme. These types of uses include retirement uses, community facilities, and child care centers. These types of use may well represent the highest and best use for the land and would suggest that land values towards the upper end of the figures indicated could be attained.

As such, there is a good case for MGC to consider the land sale options of the Benion Block and or Great South Road frontage, particularly as the magnitude of the residual land value appears to be in the ballpark needed by the club to pay down debt and pay for maintenance.

Re-running H&G's model indicates the following potential values:

	H&G Estimate of Value to Club	**Re-Estimate Costs Only (Net to Club)**	**Re-Estimate Revenue & Costs (Net to Club)**
Options 1A & 1B: Commercial Development on Great South Road	[X]	$[X]to $[X]million	$[X]to $[X]million
Options 2A & 2B: Residential Development on Benion Block	$[X]to $[X]million	$[X] to $[X]million	$[X] to $[X] million

TABLE A.2: H&G COSTS & VALUE RE-ESTIMATE

A.4 PARTIAL LAND SALE OPTIONS

The partial land sale options include the Benion Block and the land adjacent to Great South Road ("GSR Land"). Based on indicative purchase offers to date there is a case for MGC to pursue partial sales if the Club wishes to stay at Takanini as the indicated prices are in the range required by the club to meet its finance and repairs requirements.

DARROCH VALUATION

The Darroch valuation provides a cross-reference for the value of the land against other reports both in terms of per square metre values and potential section values. Darroch valued the MGC land at $[X] on 13 November 2009 and provided a 'partial valuation' of some parts of the land:

	Value Per Square Metre
Whole Site	$ [X]
Benion Block	$ [X]
Driving Range	$[X]
North Corner	$[X]

TABLE A.3: DARROCH VALUATION

Reviewing the market sales for golf courses, Darroch suggests that golf courses have a low intrinsic value. However, at an estimated 400-650 square metres per residential site the Darroch figures suggest most sites on the MGC land would sell for $[X] - $[X] psm as a developed residential site with some sites reaching more per square metre and others less. It is the Residential 4 zoning that forms the primary value of MGC's land.

Although Darroch estimates that sections will realize a mid value of $[X], they adopt an average value of only $[X]in their Hypothetical Subdivision valuation (less than the midpoint of $[X]).

Key comments and aspects of the Darroch Valuation are:

- No value is added to bare land by constructing golf courses with a maximum value attributed to the MGC of $[X] million as a golf course. Eg. Darroch estimates the value of golf courses are below the cost of construction.
- A high discount rate placed on the development scenario following the global financial crisis in 2007/8 (20% to 30%).
- Additional discounts on market data from 2008 / 2009 to reflect the crisis mentality of the time [which have not fully materialized in 2010 – although sales volumes have dropped significantly].
- Lower development costs than those used by H&G.
- No obvious consideration of a higher density development proposal for the land including, for example, retirement village uses.
- Replacement costs for the golf course proper were estimated at $700-800,000 per hole plus ancillary buildings. [Note: this cost is lower than the cost of $1 million per hole often cited by members of the MGC and the difference seems to depend on the level of quality being assumed.]
- If residential sites were developed on MGC's land the majority of sites could be fetch between $150,000 and $270,000, with some better sites reaching $500,000 and some smaller sites $130,000.

Darroch acknowledges that there is the possibility of some higher density residential development on the site including retirement villages and even some limited commercial activity (not withstanding the comment that the land is primarily for residential purposes). However, it is not clear that this is

specifically included in the ascribed value. It is likely that an indicative development scheme would need to be provided to Darroch to obtain a clearer picture of the potential value. Alongside realization values, a better cost estimate would need to be undertaken by an experienced / qualified civil engineer.

[X]GROUP

[X] has provided an expression of interest to MGC dated 31 October 2010 for the Benion Block for $[X] plus GST (if any). This equates to a price of $[X]and is [X]% higher than the valuation of $[X] psm ascribed by Darroch.

Benion Block: Indicative Offer	$ [X] psm

TABLE A.4: MARKET OFFER PRICE FOR BENION BLOCK

[X] has provided a valuation report, dated 9 November 2005, which indicates the Benion Block has a value of $[X]– some [X]%+ higher than the Darroch valuation of November 2009. Reasons for this likely include the risk premium on land valuations ascribed by Darroch as a result of the global financial crisis of 2007/8 (the discount rate used) and the subdivision pricing models used in the two valuations. [X] indicates they are still willing to pay a price in this range and as such provide a market view of risk and price.

Key aspects of the [X] expression of interest are:

- Price of $[X], or $[X] psm, for the Benion Block.
- A due diligence period (time frame not specified) to work through planning and engineering issues.
- Deferred Settlement (time frame not specified) to secure regulatory planning approvals.
- Deposit of 10%.
- Access from Conifer Grove (Brylee and Keywella Drives) – requiring no upgrade of the Great South Road intersection and consequently a lower cost to develop (higher price able to be paid for the land).
- A self-imposed limit on the maximum number of sites to 36 higher value sections, and a willingness to enter into covenants with MGC to this effect. (Sizes from 550 to 650 sqm.)
- [X] indicates they aim to achieve lot values of $[X].

The [X] offer provides market evidence toward the upper end of the Darroch valuation and is the most reliable indication of current value.

It is not clear from the [X] offer whether a more intensively developed option (more sections) would increase the offer price [X], or any other developer, is prepared to pay. If this were the case, then MGC could obtain a higher price for the Benion Block by not constraining a purchaser to the lower number of lots proposed by [X].

MGC will need to decide if price is the sole criteria for a sale or if it wishes to potentially constrain the sale price with other restrictions such as those offered by [X]. It is noted that higher density is not directly proportionate to higher value, however, and only an open market process would determine the best offer for the Club.

[X] OFFER

An expression of interest was received on 3 November 2010 indicating interest in purchasing some part of the MGC land. This offer was not further quantified in terms of land area sought or indicative price.

This offer serves primarily to underscore that there is current market interest in the MGC land. Should MGC wish to remain in its current location there is competition in the marketplace which could work to MGC's benefit in obtaining a market price for its land.

SALE OF BENION BLOCK TO MEMBERS OR OTHER NEARBY RESIDENTS

Some members of the Club live along the Conifer Grove / Benion Block area and may have an interest in seeing the Benion Block retained as, effectively, open space instead of being developed.

Because the land owned by the Club is a private asset, owned by MGC, the transfer price for the land should be the highest market price obtainable according to the highest and best use. Should residents along the Benion Block boundary wish to purchase the land it stands to reason that they would need to pay the market fair price – as would any other party.

The land is zoned Residential 4 and the usual approach to legal and planning matters in New Zealand is 'buyer beware'. In other words, as the land is zoned for residential purposes there has to be a reasonable expectation on the part of the neighbours that it could one day be developed according to the uses outlined in the district plan – existing use notwithstanding.

Should the club, as a whole, wish to negotiate a below market price for the land that would be the membership's prerogative – whether that offer were to any member or any other person. A sale would need to be undertaken in accordance with the constitution of the Club and relevant legal frameworks.

SALE OF SECTIONS AT THE HARBOUR END OF THE BENION BLOCK

The possibility of selling a small number of sections at the Manukau Harbour end of the Benion Block has been raised as these are potentially high value (coastal) blocks.

While the indicative value of the blocks is likely at the upper end of the valuations noted by Darroch (say, $350-500,000) due to aspect and location, approximately 15 to 20 sections would need to be sold to reach the amount needed by the club after development costs and levies. With this number of sections the exercise is not one of 'cutting off a couple of sections' but a full-fledged subdivision exercise entailing the full suite of resource consenting, civil engineering, marketing, and sales risks. The area required would also likely be up to half of the Benion Block.

Because of the amount of money needed by MGC the exercise of selling sections directly is likely to be larger and more complex than it would first appear. Also, the timeframe to sell the sections and achieve the premium pricing suggested is uncertain and likely longer rather than shorter. In the interim MGC would need to fund development costs and marketing costs as well as continuing to pay existing interest costs. Undertaking a subdivision and sales campaign would need to be appropriately resourced and managed by individuals experienced in higher-end residential subdivision.

A.5 SALE OF THE ENTIRE SITE & RELOCATION OPTIONS

Two significant offers have been received by MGC for full relocation: the Fletcher Residential Ltd purchase and relocation, and the [X] Ltd proposal.

FLETCHER RESIDENTIAL (FRL) OFFER

Fletcher Residential Ltd has invested time and money to engage with MGC and reach a Heads of Agreement (HOA) for the sale of all of MGC's land to FRL. This review is based on the proposed FRL HOA presented to MGC in October 2010 and understanding of subsequent amendments to be provided in mid-November 2010.

Questions surrounding the approach taken in the HOA include:

- The total effective price to be paid by FRL in compensation for acquisition of the MGC land is unclear.
- The risk that, at FRL's 'sunset date' for taking possession of MGC's existing land, the new course is not completed by RRC and MGC does not have recourse to FRL at that time. In this event MGC could be left without a course to move into. It is understood that financial penalty clauses are being arranged to address this risk and / or remove the sunset clause.
- The broad outline of the new course to be provided by FRL is set in Schedule 2 of the HOA and any significant changes to these items could result in MGC paying for additional items out of its cash settlement. This is to be negotiated during the HOA period and if agreed would then primarily leave total sale price and timing of the move to the new course as the main issues.

Key aspects of the FRL offer are:

- An exclusive 6-month period during which MGC would not engage with any other parties to sell any part of MGC's land.
- During the exclusive period the details of the HOA, including the design of the new course are to be confirmed.
- A deferred settlement period.
- The exact sale price to be paid by FRL is not stated. It includes $[X] million in cash plus a new golf course to be constructed by Ross Reid Contractors Limited (RRC). FRL will also pay fees amounting to $[X] for design and legal fees for MGC. (The price of the new course construction is not currently detailed in the HOA nor is the price of the new block of land on which the course is to be constructed.)
- The HOA provides for a two-part agreement between FRL and MGC for the land swaps and cash payments and FRL and RRC to construct the new course in accordance with the design to be agreed.
- MGC receives a 'fixed price' contract for a course and amenities as outlined in Schedule 2 of the HOA.

Based on the $[X] million noted by Darroch for the land FRL was to purchase for the new course, and the $700-800,000 per hole Darroch estimated for construction of a new golf course, the cost of the new golf course may be approximately $23,400,000 plus ancillary buildings. With the $[X] million cash payment, this would be a total value to be paid to MGC of some $[X] plus some additional miscellaneous buildings and fees.

It is not clear if the FRL land purchase will be for the price noted by Darroch, or if the actual cost of construction is between $700-800,000 per hole. However, the approximately $[X] million price is not a premium over the valuation – particularly if the deferred settlement stated in the HOA is taken into consideration.

Given the club structure of MGC, substantial risk exists that additional amenities will be sought by club members during construction. Because additional amenities will have to be paid for out of the cash settlement, the likelihood of MGC concluding the transition with less than the $[X] million is high. To the extent that this occurs, MGC will have swapped a high value Residential 4 asset for a lower value rural block which is capitalized beyond its resale value.

The main aspects for MGC to consider in the FRL offer are:

1. Is the total price being paid by FRL fair value for MGC's land?
2. Does the price / value attributed to the new land and construction of the new course represent a competitive market rate for the land and cost of construction?
3. Does the two-part agreement between MGC and FRL, and MGC and RRC, mitigate risks for MGC or create risks?

[X] OFFER

[X] outlined a relocation proposal to MGC in an email dated 1 September 2010 and elaborated this in a phone conversation to Nicolas Maier.

The [X] offer comprises two aspects:

1. A sale of MGC's existing land followed by construction of and relocation to a ground lease situation on land owned by [X].
2. A long term, but not perpetual, lease.
3. A recommendation to invest surplus cash not used to purchase new land in commercial real estate.

The basic premise put forth by [X] is for MGC to invest money it would have spent on purchasing new land in higher yielding asset classes and capture the difference between the cost of rental and the higher yields. While superficially appealing, this is inappropriate for MGC because:

- MGC needs land for a golf course (its primary business).
- Such a strategy requires investment expertise focused on long term asset allocation. It is almost certain that the club would embrace an inappropriate portfolio consisting of too much cash and bonds and fail to invest in the correct equity-like asset classes of shares, international shares, and private equity. As such, the club would be highly likely to fail in trying to obtain the yield premium suggested.

Questions surrounding the approach outlined by [X] include:

- Lease structure in general. MGC must develop a new course on land it would not own, which results in MGC having no long term return on the underlying land (no land ownership). Any land appreciation will not accrue to MGC. Should MGC wish to subsequently relocate it would lose the entire sum of money spent constructing the golf course on [X]'s land and need to spend an equal amount to build another course in the future.
- Lease payments. The cost of tenure to MGC would need to be determined.
- MGC has not previously been in the business of commercial real estate development and lacks expertise in this specialist area.

Leaving aside the questions around commercial real estate development, a leasehold structure entails significant risks for MGC. Firstly, it appears MGC is being asked to invest a significant sum of money constructing a new course on [X]'s land. Secondly, MGC will have no asset to show for this

investment and will instead owe a lease payment to [X]. Thirdly, ground leases have the potential to result in significant cost increases upon review which would then need to be funded by MGC.

A more typical commercial lease structure is for a landlord to provide a functioning facility and the tenant to pay an annual rental for occupation. For this to occur [X] would need to fund and construct a new golf course and MGC would then enter into a lease to occupy. [X] indicated that it would not be willing to provide a fully built golf course for a rent value of below 4% cost to construct. As such the return required to obtain the premiums outlined would need to be above, say, 8% - 10% in real terms.

A.6 COMMENT ON SALE VALUES

COMMERCIAL & INDUSTRIAL LAND VALUES

The market sales data provided by Bayleys Research suggests that the market price for industrial zoned land would be 25% higher than the figures used by Harrison Grierson.

While not specifically quantified in this report, retail land generally receives a premium above industrial land – subject to the specific types of uses permitted and the patronage / traffic flow past the retail site. Given the proximity to the motorway and length of road frontage, the GSR Land appears to be well situated and could obtain reasonable sale prices if able to be utilised as retail land.

At an indicative site size of 29,000 to 37,500 sqm the GSR Land is of reasonable size and could achieve values at or in excess of the average of $280psm noted by Bayleys Research. This would equate to a gross sale price of $[X]to $[X] million, and a net realization to the Club as outlined in the H&G section above ($[X]- $[X]million).

RESIDENTIAL SITE VALUES

The various reports provided suggest a wide range of end section prices may be obtained on the site. However, the key issue is the difference between the prices suggested by H&G, the values indicated by Darroch, and the price offered by [X].

The differences are as follows:

	Retail Sale Price (incl. GST)	
H&G Section Price	$[X]	$[X] psm (400 sqm sections)
Darroch Section Price	$[X]to $[X] (up to $500,000)	Say $[X] to $[X] psm (500 to 550 sqm sections)
[X] Section Price	$[X]	$[X] psm (550 sqm sections)

TABLE A.5: INDICATIVE FINAL VALUES

The most relevant price indication is the offer by [X] which represents a 'non-theoretical' offer. This price does assume a lower number of higher quality lots would be developed but the total price may be higher if more lots were realized.

[X] has indicated they would offer MGC $[X] million for the bare land "as is".

The key point of this comparison is to show that the market price for the land may be significantly higher than the values assumed by H&G and used by Darroch. As the [X] offer also constrains the total number of lots to be created it is possible that another developer would take a different design approach which would yield a higher number of lots and therefore offer more to MGC for the bare land.

INDICATIVE ISSUE WITH THE FLETCHER HOA & VALUE OFFERED TO MGC

Given the issues raised with both the final lot sale price and the construction costs, the following 'back of the envelope' calculation is warranted:

ITEM	**RANGE**	
Useable land realization 65% of 47ha	30.5 ha	
Number of sections at an average of 500sqm each	600[2]	
Average section sale price	$150,000	$270,000
Total end sales of 600 sections	$90 million	$162 million
Less GST 15%	$11.8 million	$21 million
Less 20% risk	$13.2 million	$24 million
Less earthworks & civil construction at $45,000 per lot	$27 million	$27 million
Less development contributions & reserve contributions	Say $11.5 million	$11.5 million
Less contingency of 10%	$5 million	$7.5 million
Net Land Value	$21.5 million	$71 million

TABLE A.6: INDICATIVE VALUE RANGE FOR WHOLE SITE

Several assumptions are inherent in this approach:

- No finance and holding costs.
- Reserve contributions would be paid in cash, not given in land (which is potentially possible) which could reduce costs to be paid.
- The subdivision is undertaken without seeking a more intensive master planned community which could increase the number of sections yielded.
- The revised H&G costs shown above suggest earthworks and civil construction would be between $35,000 and $50,000 per lot when undertaken on a large site. This price range relies on good ground conditions but economies of scale are generally likely.

The rough guidance given by this 'top down' approach to subdividing the MGC is the land is the potential range of value. An offer of approximately $[X]million for the MGC land (as estimated from the FRL offer) would be below the midpoint of the rough potential values.

[2] To determine the approximate number of sections and their indicative value MGC would need to prepare a subdivision scheme utilizing the highest and best density for the site and have this valued. The total number of sections and their average price would then be better defined.

Note that this model is built using the various figures obtained in this review but is still indicative only. MGC needs to satisfy itself of the potential value of its asset holding under a realistic development scenario, and the equivalent cash value of the offer being made by FRL, in order to evaluate the exchanged under the proposed HOA.

A.7 OPTIONS COMPARISION TABLE

This table allocates a low score (1, red) to unattractive choices and a high score to more attractive choices (5, clear). The ranking is subjective.

	OPTION	TOTAL	VALUE	RESIDUAL ASSET	SUSTAINABLE	FEES REQUIRED	DISTANCE	COURSE QUALITY	AMENITY	FACILITIES	HOSPITALITY	AMENITY	CHANGE
STAY IN TAKANINI	RAISE A SINKING FUND	45	5	5	5	1	3	3	3	5	5	5	5
	SELL DENICN BLOCK	39	5	5	3	3	5	3	3	3	3	3	3
	SELL GSR FRONTAGE	35	5	3	3	3	3	3	3	3	3	3	3
	SELL HARBOUR SITES	27	1	5	1	1	3	1	3	3	3	3	3
	DO NOTHING	21	1	1	1	1	3	3	3	1	1	3	3
SELL	RELOCATE	39	3	3	5	5	3	3	3	5	5	3	1
	AMALGAMATE	31	5	1	3	5	1	3	3	3	3	3	1
	LEASE NEW SITE	25	1	1	1	3	3	3	3	3	3	3	1
			FINANCIAL				LOCATION			FACILITIES		NEIGHBOURS	
			CRITERIA										