

## Valuation Report

69 Heygarth Street  
Echuca Vic 3564

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# Valuation Executive Summary

69 Heygarth Street, Echuca



## Property Description.

<b>Property Type</b>	Circa 2006 built, single level commercial office building leased to Centrelink.
<b>Highest and Best Use</b>	Continued commercial office use. Refer to Assumptions / Qualifications - Definition of Highest and Best Use
<b>Building Area - GLAR</b>	880 sq.m.
<b>Car Parking</b>	21 spaces (2.4 cars per 100 sq.m. of NLA)
<b>Site Area</b>	1,621 sq.m.
<b>Zoning</b>	<i>Commercial 1 Zone (C1Z)</i>
<b>Overlays</b>	<i>Land subject to Inundation (LSIO); Parking Overlay (PO1); Aboriginal Cultural Heritage Sensitivity; Bushfire Prone Area.</i>
<b>Title Details</b>	Volume 11169 Folio 120
<b>Registered Proprietor</b>	The Trust Company Ltd

## Occupancy Summary.

<b>Lessee</b>	Commonwealth of Australia represented by the Department of Human Services (Centrelink).
<b>Term</b>	6 + 3 years
<b>Commencement Date</b>	1 December 2016
<b>Remaining Lease Term</b>	Approximately 22 months.
<b>Passing Rental</b>	\$341,441 p.a. (gross)
<b>Reviews</b>	The lesser of CPI or 4% p.a. for the first three years from the commencement date, then fixed 3% p.a. thereafter.
<b>Outgoings</b>	Responsibility of the Lessor

## Instructions.

<b>Instructing Party</b>	MPG Funds Management
<b>Ordered By</b>	Mr Brett Gorman
<b>Interest Valued</b>	Freehold interest subject to the existing lease
<b>Date of Instruction</b>	25 January 2021
<b>Borrower / Applicant</b>	The Trust Company Ltd

## Valuation Methodology.

<b>Primary Method</b>	Income Capitalisation Refer to Assumptions / Qualifications - Definitions of Valuation Approaches
<b>Secondary Method</b>	Direct Sales Comparison

## Valuation Summary.

<b>Date of Inspection &amp; Valuation</b>	10 February 2021 Refer to Assumptions / Qualifications - Date of Valuation
<b>Passing Gross Rental</b>	\$341,441 p.a.
<b>Assessed Net Rental</b>	\$299,041 p.a.
<b>Yield Adopted</b>	7.25%
<b>NLA Value Rate</b>	\$4,750 p.s.m.
<b>Valuation</b>	<b>\$4,100,000 (Exclusive of GST)</b> Four Million One Hundred Thousand Dollars

## Mortgage Recommendation.

<b>Purpose</b>	First mortgage security purposes. Refer to Valuation & Valuation Compliance Statement - Mortgage Recommendation
<b>Suitability</b>	At the assessed value, \$4,100,000 (exclusive of GST), and subject to the qualifications and recommendations made within this report, the property is considered a suitable security for first mortgage purposes. Furthermore, we particularly refer you to the <i>Significant Valuation Uncertainty - COVID-19</i> section within the <i>Risk Profile</i> of our report.

## Prepared By.

Charter Keck Cramer Pty Ltd

  
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NOTE - This Valuation Executive Summary should be read in conjunction with the Risk Profile;  
Valuation Report and Assumptions / Qualifications.  
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# Risk Profile

69 Heygarth Street, Echuca

Further to recommendations, qualifications and rationale within this report, a mortgagee should have particular regard to the following Risk Profile, which forms part of our Executive Summary:

## Use of this Valuation Report.

- This Report is for the use of the Instructing Party only. It is not to be used for any other purpose by any other party. Any reliance, use, distribution, publication of the Report and/or any other representations made relating to the contents of the Report is restricted solely to the Instructing Party expressly named in this Report.
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## Asset.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- The improvements comprise a single level commercial office building which was constructed in or about 2006. As at the date of inspection, the improvements presented in good condition overall with no immediate requirement for capital expenditure.
- Secondary improvements include a secure on site car park providing 19 open car spaces together with a double garage (21 spaces in total).
- The improvements are erected upon a *Commercial 1* zoned allotment of 1,621 sq.m., occupying a corner location, a short distance west of High Street, within the main commercial precinct of Echuca.
- Echuca is a regional Victorian town, situated approximately 214 kilometres north of Melbourne, bordering the Murray River. The population is approximately 15,000 people.
- The premises was previously issued with a NABERS energy rating of 6 stars, which is unique for a building within a regional location. The rating expired in February 2017.

## Cash Flow.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- The property is occupied by Commonwealth of Australia represented by the Department of Human Services (Centrelink) pursuant to six year term which commenced 1 December 2016, together with one further term of three years. The known remaining lease term at the date of valuation is therefore approximately 22 months.
- The passing rental of \$341,441 p.a. (gross), adjusted for non-recoverable outgoings detailed in subsequent sections of this report reduces to a net annual income of \$299,041 p.a., reflecting \$340 p.s.m.p.a. (inclusive of car parks) which is considered in line with current evidence and therefore has been adopted for assessment purposes.
- The rental is subject to annual increases according to the lesser of movements in the Consumer Price Index and 4% p.a. for the first three years of the current term, then fixed increases of 3% p.a. thereafter.
- The current level of outgoings are considered to be fair and reasonable.
- Our enquiries indicate no rental or outgoing arrears in relation to the existing Lease.
- The property is being adequately self-managed by interests associated with the mortgage applicant.
- There are no outstanding incentives.
- Our enquiries of the mortgage applicant have confirmed that the tenant is currently not receiving rent relief pursuant to the COVID-19 Mandatory Code of Conduct. Accordingly, we have not made any allowances for rent relief within our valuation assessment.

## Market.

LOW

LOW - MEDIUM

MEDIUM

**MEDIUM - HIGH**

HIGH

- There were minimal sales transactions within this market segment during 2020 due to the COVID-19 pandemic. The market came to a virtual standstill for several months, although following the conclusion of the second lockdown in late 2020, a small number of regional Victorian office buildings were offered to the market, which were met with a good level of interest, indicating a resilience for this asset class. The regional office market is being viewed by some as a more attractive investment proposition, as more tenants look to decentralise operations away from a city environment. Throughout regional Victoria, the strongest demand has been for recently built facilities, occupied by "blue chip" tenants, which are subject to secure and long term leases.
- Over the past 18 months, yield rates for regional commercial investments have demonstrated a wide range of say 5.75% - 8.75% for the majority of sales, acknowledging that yields at the lower end of the range are generally associated with more recently constructed, high quality buildings or properties which exhibit "value add" opportunities or strong redevelopment potential. The value rates generally demonstrate a range of say \$2,750 - \$5,000 p.s.m.
- We note that whilst the building was purpose built as a Centrelink centre, the property could be leased and occupied by a range of alternative commercial users given the location and nature of improvements.
- More generally, COVID-19 continues to have a disruptive impact on the economy, and with market and regulatory interruption to business cashflows and the undermining of sentiment, may still have some negative impact on real estate values.

## Critical Matters.

- The current lease term expires in approximately 22 months. There is an option period of three years. Centrelink have been in occupation of the premises for many years subject to previous lease terms and conditions. Notwithstanding, we highlight that the remaining known lease term is less than two years, therefore, there is some risk of whole building vacancy at that time, although unlikely.

## Significant Valuation Uncertainty - COVID-19.

- The market is being impacted by the uncertainty caused by the COVID-19 pandemic. As at the date of valuation we consider that there is market uncertainty resulting in significant valuation uncertainty.
- This valuation is therefore reported on the basis of 'significant valuation uncertainty'. As a result, less certainty exists than normal and a higher degree of caution should be attached to our valuation than normally would be the case.
- Given the uncertainty around the ongoing impact that COVID-19 might have on markets, we recommend that the user(s) of this report review this valuation periodically.
- This valuation is current at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the date of valuation). We do not accept responsibility or liability for any losses arising from such subsequent changes in value.