

# Valuation Report

136-142 Bailey Street  
Grovedale Vic 3216

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# Valuation Executive Summary

136-142 Bailey Street, Grovedale



## Property Description.

<b>Property Type</b>	Child care centre
<b>Highest and Best Use</b>	Child care centre Refer to Assumptions / Qualifications - Definition of Highest and Best Use
<b>Building Area - GLA</b>	720 sq.m.
<b>Car Parking</b>	31 spaces
<b>Site Area</b>	2,731 sq.m.
<b>Child Care Places</b>	139
<b>Zoning</b>	General Residential Zone (GRZ1)
<b>Overlay</b>	Nil
<b>Title Details</b>	Volume 11903 Folio 624
<b>Registered Proprietor</b>	The Trust Company Ltd

## Occupancy Summary.

<b>Lessee</b>	Think 3 Grovedale Bai Pty Ltd
<b>Term</b>	15 + 15 + 15 years
<b>Commencement Date</b>	1 April 2017
<b>Remaining Lease Term</b>	11.2 years / 134 months
<b>Passing Rental</b>	\$422,230 p.a. plus GST
<b>Reviews</b>	3% increases on 1 January of each lease year with a market review on the commencement date of each further term.
<b>Outgoings</b>	Lessee responsibility

## Instructions.

<b>Instructing Party</b>	MPG Funds Management
<b>Client reference</b>	The Trust Company Ltd
<b>Ordered By</b>	Brett Gorman
<b>Interest Valued</b>	Freehold interest subject to lease
<b>Date of Instruction</b>	24 January 2021
<b>Borrower / Applicant</b>	The Trust Company Ltd

## Valuation Methodology.

<b>Primary Method</b>	Income Capitalisation
<b>Secondary Method</b>	Direct Sales Comparison

## Valuation Summary.

<b>Date of Inspection &amp; Valuation</b>	29 January 2021 Refer to Assumptions / Qualifications - Date of Valuation
<b>Passing Net Rental</b>	\$422,230 p.a.
<b>Assessed Net Rental</b>	\$422,230 p.a.
<b>Yield Adopted</b>	6.25%
<b>Child Care Value Rate</b>	\$48,500 p.s.m.
<b>Valuation</b>	<b>\$6,750,000 (Exclusive of GST)</b> Six Million Seven Hundred and Fifty Thousand Dollars

## Mortgage Recommendation.

<b>Purpose</b>	First mortgage security purposes. Refer to Valuation & Valuation Compliance Statement - Mortgage Recommendation
<b>Suitability</b>	At the sum assessed, \$6,750,000 (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

Martyn Boyle

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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

136-142 Bailey Street, Grovedale

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.

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## Asset.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- A single level purpose built child care centre constructed in 2016.
- The improvements are contained upon a *General Residential Zone* allotment of 2,731 sq.m. within Grovedale, approximately 7 kilometres south of the Geelong Central Business District.
- The improvements are purpose built and offer limited (if any) alternate uses. Should the child care use discontinue, we consider the property would represent a redevelopment site most likely suiting residential townhouse development.
- Forms part of a location with an identified likely average level of demand for child care services currently.
- Issued with a Service Approval and Planning Permit which allows for a capacity of 139 children.

## Cash Flow.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- Occupied by Think 3 Grovedale Bai Pty Ltd pursuant to a 15 year lease commencing 1 April 2017 with two further terms each of 15 years. The known remaining lease term is 11.2 years / 134 months.
- The passing rental of \$422,230 p.a., reflecting circa \$3,100 p.c.c.p., is considered to be at a market level and has been adopted within our calculations.
- The rental is subject to annual 3% increases in 1 January of each lease year with a market review at the commencement of each further term.
- The lessee is responsible for the payment of all outgoings including State Land Tax.
- Think 3 Grovedale Bai Pty Ltd is a subsidiary of Think Childcare Limited. Think own and manage over 78 child care centres throughout Australia and is listed on the Australian Stock Exchange. Think have received separate non-binding and indicative proposals from Alceon Group Pty Ltd and Busy Bees Early Learning Australia Pty Ltd to acquire the issued stapled securities in the group. The proposed acquisition / offers are currently in due diligence stage and Think have advised that there is no assurance that either proposal will result in a transaction.
- Our enquiries indicate no rental or outgoing arrears in relation to the Lease.
- The Federal Government on 7 April 2020 introduced a National Cabinet Mandatory Code of Conduct (Code) in relation to commercial tenancies (including retail, office and industrial), which is designed to keep small and medium enterprises (SMEs) afloat during the Coronavirus (COVID-19) crisis. Specifically, SME tenants relate to tenancies that are eligible for the "*Commonwealth Government's JobKeeper programme, with an annual turnover of up to \$50 million*" as defined under financial stress or hardship resulting from the COVID-19 pandemic.

- Individual relief packages are to be negotiated between the Landlord and Tenant under set guidelines in accordance with Regulations of the Act. One of the key aspects is rental relief and the relief amount must be based on all circumstances. More particularly, at least 50% of the total rent relief has to relate to the waiver of rent, with the balance relating to the deferred payment of rent unless otherwise agreed in writing.
- We have been advised that no rent relief was granted and accordingly no further adjustment is required.

## Market.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- Strong demand for child care freehold investments with strongest demand for centres which encompass long term lease covenants to recognised and well-established child care providers.
- Yield rates demonstrate a range of say 5.5% to 6.5% for most facilities, with child care value rates generally ranging from say \$35,000 to more than \$55,000 p.c.c.p. During the COVID-19 pandemic there have been several transactions with yields falling into the range of say 5.5% to 6% for centres within metropolitan Melbourne.
- Notwithstanding the outbreak of COVID-19, child care centres provide essential services for the wider Australian community and are supported by strong macro-economic and demographic factors with strong Government support. Child care operators have therefore had a greater capacity to trade during the current situation, generally maintaining an ability to pay rent and be less impacted than other sectors of the property industry. Landlords may still be required to work in partnership with tenants to ensure the continuity of providing early education services should they experience hardship through reduced occupancy/trade.

## Critical Matters.

- The viability of a child care centre is heavily reliant on the ability of the operator to achieve and maintain occupancy. Financiers should be aware that the value of the freehold interest can be affected should the business operator fail to achieve and/or maintain sufficient revenue and profit levels, resulting in an inability to pay rent. Should the business deteriorate, there may be a real perception of diminished reputation which may negatively affect the freehold value.
- The tenant has completed some internal works by converting Education Rooms 3 to an open Piazza area by removing an internal wall. The business is operated by the tenant as a 118 place however our valuation is conducted in accordance with the Planning Permit and Service Approval which specify a capacity of 139 children.

## 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 unknown future 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.