

DRAFT

Valuation Report

6 -12 Chapel Street
Morwell Vic 3840

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Valuation Executive Summary

6 - 12 Chapel Street, Morwell

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Property Description.

Property Type	Commercial Office (Centrelink and Medicare)
Building Area - NLA	2,273 sq.m.
Car Parking	7 Spaces
Site Area	3,004 sq.m.
Zoning	Commercial 1 Zone (C1Z)
Overlays	Parking Overlay (PO2)
Title Details	Volume 9821 Folio 907 Volume 9949 Folio 104 Volume 8480 Folio 900 Volume 10181 Folio 323
Registered Proprietor	Longwell Pty Ltd and Mantello Holdings Pty Ltd as tenants in common

Occupancy Summary.

Lessee	Commonwealth of Australia represented by the Department of Human Services.
Term	7 + 3 years
Commencement Date	16 January 2019
Remaining Lease Term	6 years and 6 months.
Passing Rental	\$500,588 p.a.
Outgoings	Responsibility of the Lessor
Reviews	3% p.a. with a market review at the exercise of an option period.

Transaction History.

Comment	The property is currently subject to an offer to purchase by MPG Funds Management Ltd. The offer is based on an agreed net income of at least \$495,500 capitalised at a purchase price yield of 7.625% to indicate a purchase price of \$6,500,000. It is based on a \$50,000 deposit to be paid on completion of the due diligence period, which will expire 21 days after the 15 July 2019. The Vendor has granted the purchaser a further Capital Raising Period of 45 days from the completion of the due diligence period. Settlement of the property is to occur within 14 days after signing the Contract of Sale. The offer was made on 25 June 2019 and the Vendor accepted the offer on 26 June 2019.
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Instructions.

Instructing Party	MPG Funds Management Limited
Interest Valued	Freehold interest subject to lease
Date of Instruction	16 July 2019
Borrower / Applicant	MPG Funds Management Limited

Valuation Methodology.

Primary Method	Income Capitalisation
Secondary Method	Direct Sales Comparison

Valuation Summary.

Date of Inspection & Valuation	19 July 2019 Refer to Assumptions / Qualifications - Date of Valuation
Passing Rental	\$500,588 p.a.
Assessed Net Rental	\$490,000 p.a.
Yield Adopted	7.5%
NLA Value Rate	\$2,850 p.s.m.
Valuation	\$6,500,000 (Exclusive of GST) Six Million Five Hundred Thousand Dollars

Mortgage Recommendation.

Purpose	First mortgage security purposes. Refer to Valuation & Valuation Compliance Statement - Mortgage Recommendation
Suitability	At the sum assessed, \$6,500,000 (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.

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.

J137176:DM:LK/NK

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Risk Profile

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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:

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Asset.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- The improvements comprise a single but split level commercial office building which was constructed in the 1980s, extended in the 1990s, and variously re-fitted over the years as required. As at the date of inspection, the improvements presented in good condition overall with no immediate requirement for capital expenditure.
- The improvements are erected upon a *Commercial 1* zoned allotment of 3,004 sq.m., occupying a corner location, a short distance south-east of Morwell's main commercial precinct.
- Secondary improvements include a secure onsite car park providing seven open car spaces with security access off Chapel Street.
- The premises was issued with a NABERS energy rating of 4 stars, which is relatively good for a building within a regional location. The rating expires on 25 July 2020.

Cash Flow.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- The property is occupied by Commonwealth of Australia represented by the Department of Human Services pursuant to a new lease term of seven years commencing 16 January 2019 together with two further term of three years each. The known remaining lease term at the date of valuation is therefore six years and six months.
- The passing net rental of \$500,588 p.a. reflects \$220 p.s.m.p.a. (inclusive of car parks) which is considered in line with current evidence. Our assessed net market rent adopts an allowance for annual ongoing non recoverable expenses of \$10,000 to indicate an amount of \$490,000 p.a.
- The rental is subject to annual 3% increases for the initial term with reviews to market at the exercise of an option period.
- Our enquiries indicate no rental or outgoing arrears in relation to the existing Lease.

Market.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- There continues to be a good level of demand for commercial offices throughout regional Victoria, with strongest demand for recently built facilities, occupied by “blue chip” tenants such as the subject, which are subject to secure and long term leases.
- Yield rates for regional commercial investments demonstrate a wide range of say 6% - 10% for the majority of premises, 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 with for strong redevelopment potential. The value rates generally demonstrate a range of say \$2,000 - \$6,000 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.
- We caution that the current level of demand is resulting in prices being achieved that may not be sustainable beyond the immediate term, particularly should economic conditions worsen, interest rates rise or offshore demand subsides.

Other.

- The property is currently subject to an offer to purchase by MPG Funds Management Ltd. The offer is based on an agreed net income of at least \$495,500 capitalised at a purchase price yield of 7.625% to indicate a purchase price of \$6,500,000. It is based on a \$50,000 deposit to be paid on completion of the due diligence period, which will expire 21 days after the 15 July 2019. The Vendor has granted the purchaser a further Capital Raising Period of 45 days from the completion of the due diligence period. Settlement of the property is to occur within 14 days after signing the Contract of Sale. The offer was made on 25 June 2019 and the Vendor accepted the offer on 26 June 2019.

Critical Matters.

- The property adjoining to the north is a Liberty fuel station. It appears to be an older building and we are unaware of the state of the tanks and lines beneath the ground.
- The photographs included in this report were taken at the property inspection on 19 July 2019 at 9:00 am.