

Valuation Report

**70 Robert Street
Wallsend NSW 2287**

23 March 2021

Under instruction from
MPG Funds Management

For reliance by:
**Commonwealth Bank of Australia (Bank) and
Bank Group Members**



Reference: MS/13299

**Knight Frank Newcastle
Suite 1, Ground Floor
168 Parry Street, Newcastle NSW 2300
D: +61 (0)2 4920 5707
T: +61 (0)2 4920 5700
F: +61 (0)2 4927 1755**

www.knightfrank.com.au

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70 Robert Street Wallsend NSW 2287			
Instructing Party	MPG Funds Management		
Bank Applicant	MPG Funds Management		
Interest Valued	Unencumbered freehold interest		
Basis of Valuation	Market Value "As Is" subject to existing Lease		
Relying Party and Purpose of Valuation	Commonwealth Bank of Australia (Bank) and Bank Group Members for first mortgage security purposes. The valuation may not be relied upon by the Bank Applicant/Borrower for any other purpose.		
Land Area	1,646 m ²		
Title Details	Local Govt. Area (LGA) Newcastle Deposited Plan (DP) 1137198 Lot 221		
Zoning	R3 Medium Density Residential subject to the Newcastle Local Environmental Plan 2012		
Description	The Property comprises a single level, brick commercial office building which as basement parking for 15 cars. Corner position and a fringe Wallsend retail precinct location.		
NLA	1,204 m ²		
Valuation Methodology	Capitalisation and Direct Comparison Approaches		
Date of Inspection	23 March 2021		
Inspection Status	We have followed the API "Guidelines for API Prepared Time of Crisis And/Or State of Emergency Impacting Physical Inspections of Real Property" and the "COVID-19 Terms & Conditions - Annexure A" and concluded that a full physical inspection of the Property that a Valuer is customarily required to complete under professional practice standards or at law (where applicable) was possible and has been undertaken accordingly.		
Valuation Date	23 March 2021		
Income Particulars	At Market Rates		
Gross Income	\$511,700 pa		
Adopted Outgoings	\$65,503 pa		
Estimated Net Income	\$446,197 pa		
Adopted Capitalisation Rate	6.50%		
Adopted Value	\$6,500,000 (exclusive of GST)		
Passing Initial Yield	7.75%		
Core Market Yield	6.37%		
Rate/m² of NLA	\$5,399/m ²		
Valuer's Details	<table border="0"> <tr> <td>Matthew Shaw AAPI API Member No. 17321 Certified Practising Valuer Director</td> <td>Christopher Keats AAPI API Membership No. 69339 Certified Practising Valuer Director <i>(Counter signatory only)</i></td> </tr> </table>	Matthew Shaw AAPI API Member No. 17321 Certified Practising Valuer Director	Christopher Keats AAPI API Membership No. 69339 Certified Practising Valuer Director <i>(Counter signatory only)</i>
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Key Points

- We refer the reliant party/parties to the Valuation Uncertainty and the Subject Property statement, the SWOT analysis and our Mortgage Recommendation (if applicable) herein. In the current COVID-19 pandemic the reliant party should apply an abundance of caution and monitor and review the situation utilising internal and external research and resources on a regular basis as it evolves.
- Our capitalisation approach makes allowances for letting up and incentives for the Centrelink tenancy should they vacate in April 2022 assuming a prudent renewal probability. Whilst we have assumed a renewal probability of 50%, the likelihood of the tenant vacating at lease expiry is low given the surrounding amenity and strategic location for Centrelink's support services in Wallsend.
- Passing rent is considered to be above the upper end of market expectations following the annual rental reviews. For the purposes of this assessment we have adopted a market rental below (circa 6%) the passing rent
- Despite the uncertainty surrounding office leasing and existing tenant cashflows in the post pandemic environment, investment capital for office buildings remains active, particularly for modern buildings underpinned by government leases.
- We have relied upon property outgoings, as provided by the applicant, which appear to be in line with similar single tenant properties.

Critical Conditions

- This Valuation Report is prepared for the Lender named above for mortgage purposes and is not to be used or relied by any other party for any other purpose. It is subject to the terms and conditions, disclaimers, qualifications and limitations contained in the Report and any annexures thereto.
- This Report is for the sole use only of Commonwealth Bank of Australia (Bank) and Bank Group Members for mortgage purposes only and 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 Lender, and any additional parties expressly named in this Report.
- No responsibility is accepted by the Valuer and/or Knight Frank Newcastle in the event that the Lender to which this Report is addressed, or any other agreed additional reliant party(s) noted in this Report, relies, uses, distributes, publishes and /or otherwise represents anything contained in the Report for any other purpose apart from that expressly noted previously.
- No responsibility is accepted by the Valuer and/or Knight Frank Newcastle to any other parties who rely, use, distribute, publish and/or otherwise represent anything contained in the Report for any purpose.
- The valuation is also conditional upon the important notices, disclaimers and qualifications contained within the body of this report.

IVSC Disclosure: Significant Valuation Uncertainty

The IVS / API state that where there is Market Uncertainty *"The impact on sale prices and volumes will not be known until the market has stabilised and a new normal is in place"*.

Where there is Significant Valuation Uncertainty in respect of the subject property, we make the following Significant Valuation Uncertainty Disclosure – per the IVS Valuation Report Disclosure Requirement:

- The market that the property/asset is transacted and/or valued in is being impacted by the uncertainty that the COVID-19 outbreak has caused. Market conditions are changing daily at present. As at the date of valuation we consider that there is a Market Uncertainty resulting in Significant Valuation Uncertainty.
- 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.
- Given the valuation uncertainty noted, we recommend that the user(s) of this report review this valuation periodically

The definitions herein provide clarity on the meaning of Market Uncertainty and Valuation Uncertainty.

Our statement as to Significant Valuation Uncertainty in respect to the subject property is outlined next.

Valuation Uncertainty and the Subject Property

In the specific case of this valuation there is sufficient comparable evidence transacted in the current COVID-19 environment to assess market value at the valuation date. Significant Valuation Uncertainty (as discussed above) does not exist and the above IVSC Disclosure: Significant Valuation Uncertainty does not apply.

Important Notice

This Executive Summary forms a part of and should not be used or read independently from the complete report. Particular attention is drawn to the Qualifications, Important Notices and Disclaimers included in this report. Liability limited by a scheme approved under Professional Standards Legislation.

Strengths

- Lease to Government tenant expiring 26 April 2022, with 2 x 3 year options.
- Despite the uncertainty surrounding office leasing and existing tenant cashflows in the post pandemic environment, investment capital for office buildings remains active, particularly for modern buildings underpinned by government leases.
- Well presented, purpose built suburban office accommodation with basement parking.
- Given population growth in the area and demand for community services, good prospects exist for the Government Property NSW 'Centrelink' to exercise their 3 year option period.

Weaknesses

- Short Weighted Average Lease Expiry (WALE) of 1.1 years

Opportunities

- Renew Lease to Property NSW (Centrelink) well prior to expiry of Lease term

Threats

- At the date of valuation there is sufficient comparable evidence that is also sufficiently current that the conditions of Significant Valuation Uncertainty are not considered to exist. This however is not related to market risk. The market is not always rational and it is common during the early stages of economic corrections for a perceived "flight to safety" of capital to property. Unusually the current correction exacerbates this trend by the prevailing low interest rates that may fall further. As such, whilst Significant Valuation Uncertainty does not exist there remains market risk that the current transactions are not properly pricing the future risk to capital values brought about by COVID-19.
- The forward effect of COVID-19 is a risk on all property markets. A variety of property risk issues have arisen including potential structural or societal changes, new waves of infection and expectations on the timing for a vaccine. Any valuation assessment in this market is subject to a heightened level of forward market volatility/market risk compared to the pre Covid-19 era.
- Yield softening across the property sector can be triggered by a sustained increase in the cost of capital (including interest rates), unless that rising cost is accompanied by inflation driven by economic growth. At present, this risk is not apparent, with central banks in a phase of maintaining low, or lowering, official interest rates to support economies.

Buyer Profile

- High net worth individual, small cap Real Estate Investment Trust or property syndicate