

Valuation Report

1 Wade Street
Tarneit Vic 3029

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Valuation Executive Summary

1 Wade Street, Tarneit



Property Description.

Property Type	Child care centre
Highest and Best Use	Child care centre Refer to Assumptions / Qualifications - Definition of Highest and Best Use
Building Area - GBA	811 sq.m.
Car Parking	26 spaces
Site Area	4,087 sq.m. (Parent Allotment)
Child Care Places	122
Zoning	Urban Growth Zone (UGZ13).
Overlay	Development Contributions Plan Overlay (DCPO13)
Title Details	Volume 12344 Folio 286
Registered Proprietor	Nationwide Development (Vic) Pty Ltd (Vendor to the current sale)

Occupancy Summary.

Lessee	Tarneit North Early Learning Centre Pty Ltd
Term	15 + 5 + 5 + 5 years
Commencement Date	15 October 2021
Remaining Lease Term	14.7 years
Passing Rental	\$375,150 p.a. plus GST
Reviews	3% p.a. with a market review on the commencement of each further term
Outgoings	Lessee responsibility with the exception of Land Tax (single holding basis)

Transaction History.

Sale Date	17 December 2021
Sale Price	\$7,020,000 (Exclusive of GST)
Settlement	60 days from the day of sale, or earlier by mutual agreement

Instructions.

Instructing Party	MPG Funds Management Pty Ltd
Ordered By	Brett Gorman
Interest Valued	Freehold interest subject to lease
Date of Instruction	21 December 2021
Borrower / Applicant	MPG Funds Management Pty Ltd

Valuation Methodology.

Primary Method	Income Capitalisation
Secondary Method	Direct Sales Comparison

Valuation Summary.

Date of Inspection & Valuation	20 January 2022 Refer to Assumptions / Qualifications - Date of Valuation
Passing Net Rental	\$375,150 p.a.
Assessed Net Rental	\$375,150 p.a. (before deduction for non-recoverable Land Tax)
Yield Adopted	5.25%
Child Care Value Rate	\$57,500 p.c.c.p.
Valuation	\$7,020,000 (Exclusive of GST) Seven Million and Twenty Thousand Dollars (adopt contract price)

Mortgage Recommendation.

Purpose	First mortgage security purposes. Refer to Valuation & Valuation Compliance Statement - Mortgage Recommendation
Suitability	At the sum assessed, \$7,020,000 (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.
J157520:MDB

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Risk Profile

1 Wade Street, Tarneit

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

- A single level purpose built child care centre which was constructed in 2021.
- Situated on an *Urban Growth Zone (UGZ)* subdivided lot within the western suburb of Tarneit, approximately 30 kilometres from Melbourne's Central Business District.
- Forms part of an Owners Corporation comprising a total of six lots.
- 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 townhouses or some other commercial use to compliment the adjoining retail shops within the parent lot.
- 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 the education and care of 122 children.

Cash Flow.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- Occupied by Tarneit North Early Learning Group Pty Ltd pursuant to a 15 year (less one day) lease commencing 15 October 2021, together with three further terms each of five years. The known remaining lease term is 14.7 years.
- The passing rental of \$375,150 p.a., reflecting \$3,075 p.c.c.p., is considered to be at a market level and has been adopted within our calculations.
- The rent is subject to annual 3% increases with a market review at the commencement of each further term.
- The lessee is responsible for the payment of all outgoing expenses excluding State Land Tax.
- Tarneit North Early Learning Group Pty Ltd is a company associated with Aspire Education Pty Ltd. Aspire own and operate 11 centres within Victoria.
- Our enquiries indicate no rental or outgoing arrears in relation to the Lease.
- A lease incentive of three months rent free has now expired.

Market.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- There is currently 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 4.5% to 5.5% for most facilities, with child care value rates generally ranging from say \$50,000 to more than \$70,000 p.c.c.p.

- Notwithstanding the outbreak of the Coronavirus (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.
- Federal Government support for the industry continues with the recent budget announcement of an additional \$1.7 billion over three years toward improving child care affordability for parents. The new policy will be implemented from March 2022 and will offer rebates up to 95% of child care fees for families with two or more children in child care at any one time. The previous rebate cap of \$10,560 for families with a combined income of \$189,560 will also be abolished which will benefit more than 200,000 families.

Other.

- The property has been acquired by the mortgage applicant pursuant to a contract of sale dated 17 December 2021 for a consideration of \$7,020,000 (Exclusive of GST). The contract calls for a \$250,000 deposit payable on the day of sale with the balance payable on settlement, which is 60 days after the day of sale, or earlier by mutual agreement.
- We have been provided with a full and executed copy of the contract of sale which is retained on file. Having familiarised ourselves with the circumstances of the subject property we consider the contract price to be at a market level.

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.

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.