

1 Valuation Overview

1.1 Executive Summary

Instruction Details

Instructing Party:	MPG Funds Management Ltd
Interest Valued:	100% freehold interest.
Basis of Valuation:	Market value subject to existing leases.
Relying Party/Parties & Purpose of Valuation:	MPG Funds Management Ltd for acquisition purposes. An intending mortgagee for first mortgage security purposes. <i>Reliance by an intending mortgagee is subject to written approval/assignment of the valuation by Cushman & Wakefield to an approved mortgagee.</i>

Property Details

Land Area:	4,066m ²
Zoning:	Principal Centre (CBD) Zone – Townsville City Plan 2014.
Description:	<p>Comprises a recently refurbished 2-level office building that provides a total NLA of approximately 5,004m². As currently configured, the building provides three ground level food and beverage tenancies, and five office tenancies (including the CBA bank branch). Additionally, the property includes 102 basement car parking spaces.</p> <p>Tenancies forming the main proportion of NLA comprise the Department of Housing (1,838m²) and the Department of Emergency Services (1,569m²). These provide a combination of both significant "back of house" staff office and amenity areas, noting the Department of Emergency Services tenancy is operated as a major headquarters and the Department of Housing tenancy incorporates client interface areas.</p> <p>Improvements were completed in 2005 for mixed-use (including the inclusion of a Woolworths supermarket to Ground Level) and were significantly refurbished throughout 2017/18, including conversion of the supermarket tenancy into various office tenancies. An additional building was completed at this time on a portion of the site that had been used as at-grade car parking. The property effectively comprises two separate building envelopes, however they are integrated by the common areas.</p>
Contract for Sale:	<p>The property is currently subject to a Contract for Sale for \$26,000,000 exclusive of GST. In accordance with our instructions, we have incorporated the terms of the sale within our valuation and we refer the reader to Section 7 for key terms of the sale (including treatment of outstanding incentives). We consider the results of our valuation approaches to support the Contract Price, which we have adopted as market value.</p> <p>The sale was agreed following an "on market" expressions of interest campaign undertaken by JLL. We highlight that the contract price is on an incentive "paid out" basis and in accordance with our instructions we have not accounted for any liabilities in this respect and we recommend any financier factor this into their lending considerations.</p>



Valuation Details

NLA (current configuration):	5,004m ²		
Vacancy & WALE:	Vacancy: Nil (1 car bay)	WALE (income): 4.92 yrs	WALE (area): 5.10 yrs
Valuation Methodology:	Capitalisation and Discounted Cashflow with Direct Comparison as a check method.		
Date of Inspection:	15 March 2021		
Date of Issue of Report:	12 April 2021		
Valuation Date:	15 March 2021		
Income Particulars:	At Passing Rents	At Market Rents	
Gross Income (p.a.):	\$2,067,565	\$2,069,605	
Adopted Outgoings:	\$409,510	\$409,510	
Estimated Net Income (p.a.):	\$1,658,055	\$1,660,095	
Adopted Capitalisation Rate:	6.25%		
Adopted Discount Rate:	6.75%		
NPV of Outstanding Incentives:	Nil – Refer Section 6.5		
NPV of Capex:	\$509,679 (5 yrs)	\$1,027,645 (10 yrs)	
Avg Rental Growth: (Office – Gross Face)	2.23% (5 years)	2.76% (10 years)	
Adopted Value:	\$26,000,000 (exclusive of GST)		
Passing Initial Yield:	6.38%		
Core Market Yield:	6.20%		
IRR/Terminal Yield:	6.61% (10 year) / 6.50% terminal (25bps softening of adopted capitalisation rate)		
Rate/m² of NLA:	\$5,196/m ²		

Valuer Details

Aaron Timmins
Certified Practising Valuer
Registered Valuer (QLD) 3617
Joint State Director

Cameron Harris
Joint State Director
(Counter-signatory only)

Key Points

- 100% leased as at the Date of Valuation (aside from 1 car space) with a WALE of 4.92 years (by gross income).
- Office accommodation is predominantly leased to the State of Queensland (various departments, main occupants are the Department of Housing, Emergency Services and Queensland Police Service). Overall, the State of Queensland occupies 87.0% of total NLA. Additionally, the Commonwealth Bank of Australia occupies 11.4% of NLA. The property is considered to have a strong level of tenant covenant.
- In addition, there are three food and beverage operators occupying 1.7% of NLA and comprising 3.3% of gross income.
- We believe the secure medium-term income stream would be well received by investors in the current market and this was demonstrated in the recent Expression of Interest campaign conducted for the sale of the property.
- The majority of rents are considered be at or about market levels. The recent lease to the Department of Housing (1,838m², 36.7% of NLA) was agreed at a rate of \$335/m² which is considered to be at the lower end of a market range. Given the lease was recently agreed and has approximately 6.25 years until expiry we have adopted the passing rent as market and have factored any potential upside/reduced downside risk associated with the rental rate into our adopted return metrics in our assessment.
- Current leases provide fixed annual rental reviews of between 3.00% and 4.00% providing strong income growth over the remainder of the current leases. This would be attractive to investors noting the current forecasts for low CPI/low growth over the short to medium-term.

Key Points (Cont)

- Medium-term cash flow profile is considered to be strong and the "running yield" is considered to be a key investment attraction for the property and this was demonstrated by a strong level of bidding in the recent EOI sales campaign.
- Budgeted outgoings for the year ended 30 June 2021 are generally considered appropriate for valuation purposes.
- We have been provided a Technical Due Diligence (TDD) Report for the property that has been prepared by PEP Solutions that outlines a 10-year lifecycle capex plan with works totalling \$908,000 (uninflated) exclusive of GST. Inclusive of provisional capital expenditure allowances for refurbishment works upon future lease expiries within our assessment. Total capital expenditure reflects a present value of \$509,679 (5 year period) and \$1,027,645 (10 year period).
- We have adopted a 36-month expiry horizon in our capitalisation approach calculations, capturing the letting up of the existing car space vacancy and future expiries which are largely attributed to the expiry of the Department of Emergency Services tenancy in May 2023 (reflecting approximately 31.4% of NLA).
- "Other Income" comprises a storage area licence to Suki of \$1,607 p.a. which has been capitalised at the core rate.
- The terms of sale note that all outstanding incentives are to be "paid out" by the vendor and in accordance with our instructions we have not factored any liabilities in this respect into our assessment. Should the terms of sale change with the liabilities passing to the purchaser we reserve the right to amend our valuation accordingly. We recommend any financier factors this into their lending considerations.
- Face/effective rental growth that was experienced over 2018 and 2019 in the Queensland office market (particularly throughout core office locations) appears to have softened and rental growth forecasts are being revised downwards in the short-to-medium term in light of current COVID conditions. We anticipate that markets such as Townsville would be less impacted by supply issues than markets such as Brisbane.
- The impact of the ongoing COVID-19 pandemic continues to be felt through business trading conditions, with a degree of uncertainty in asset markets (to varying extents) and reduced tenant demand. This is impacting confidence in some sectors with purchasers/owners/vendors adopting a more discerning approach, particularly with regard to income related factors. Nevertheless, liquidity and capital remain strong as evidenced by a range of recent sales across various sectors. Government leased assets are being more keenly sought in the current market.
- Recent sales evidence within the commercial sector has indicated limited, if any, material market movement in values since the onset of COVID, although this does vary between assets. Long term leased assets with strong tenant covenants are particularly sought after with the possibility of yield compression being evident for these assets.
- Whilst noting the strength of capital markets and continued liquidity for assets, current local and global economic conditions continue to contribute to a higher degree of inherent pricing/value risk, particularly for secondary assets or assets with a higher perceived risk profile.
- The national economy remains subject to on-going uncertainty regarding COVID related restrictions, which given the nature of the pandemic, results in continual change to business trading conditions. As such it remains difficult to define a clear recovery path to more normalised conditions and the potential income impacts for many asset classes still remains uncertain. We recommend continued short-term monitoring of income profiles and regular review of this valuation.
- **We highlight that transactions are occurring in the major markets of Sydney and Melbourne and it is expected that liquidity would return to these markets prior to the rest of Australia. We have observed reasonable liquidity for good quality assets in the sub-\$50 million range in Brisbane. We also highlight the recent sale campaign of subject has demonstrated good demand for government leased assets in regional locations.**
- We also refer to the Code of Conduct (specifically for SME Commercial Leasing Principles during COVID-19) that was implemented by the Federal Government (National Cabinet) on 3 April 2020 and applies to all states and territories. We are advised that there are no tenants currently on on-going Code of Conduct rent relief arrangements or any pending application for rent relief as at the Date of Valuation. We note that the Code of Conduct has expired and there are currently no on-going requirements for landlords to provide new rental relief arrangements.

Contract for Sale

- We have been provided with a Contract for Sale document that is signed by the Purchaser (not yet signed by the Vendor) in addition to an Offer to Purchase document outlining the terms of sale which is signed by both parties.

Contract for Sale (cont.)

- The sale was negotiated following an "on market" Expression of Interest campaign conducted by JLL and we are advised that the property received a strong level of interest from mid-tier fund managers / syndicators. We are advised by the selling agent that there were multiple bids within a reasonable tolerance (3%-4%) of the successful offer).
- The agreed price is \$26,000,000 exclusive of GST and subject to satisfactory due diligence of the Purchaser.
- Terms relating to settlement and deposit are considered typical for a sale of a property of this nature.
- Outstanding incentives are to be "paid out" by the Vendor upon Settlement and in accordance with our instructions, we have excluded them from our assessment. We recommend any financier factors this into their lending considerations.
- **We consider the outcomes of our valuation approaches to support the Contract Price and have therefore adopted a rounded valuation figure of \$26,000,000 exclusive of GST which is in-line with the current Purchase Price for the property, accounting for the terms of sale. Refer to our Critical Conditions and Section 7 for further detail.**

Critical Conditions

- This valuation has been prepared in accordance with the International Valuation Standards (effective 31 January 2020) and API Significant Valuation Uncertainty Protocol (version 3, effective 1 July 2020) as:
"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."
- We have been advised that no formal rental relief or waiver agreements have been provided under the Commercial Tenancy Code of Conduct measures relating to COVID-19 as at the Date of Valuation. Our valuation is based upon the information provided being a full disclosure of all information that is relevant, and should there be any variation, our valuation will require revision. We note that the Code of Conduct has expired and there are currently no requirements to provide rental relief moving forward.
- We have been provided a Building Fire Risk Safety Assessment prepared by RED Fire Engineers (dated 21 July 2020) which indicates that the façade of the building does include non-confirming building products (ACP), however the application of these products are not considered to defeat the building's fire safety strategy and do not require removal. Accordingly, it is a critical condition that there is no requirement for removal or further fire engineering for any part of the building in respect of non-confirming building products and we recommend that any reliant party satisfies themselves in this respect. We have made no capital expenditure allowances in this respect.
- We have reviewed a Technical Due Diligence (TDD) Report completed by PEP Solutions dated 26 March 2021 and this does not indicate any major immediate capital expenditure issues/requirements or building defect issues and it indicates that the building is generally on good condition. We have incorporated capital expenditure plans noted in the TDD Report as well as additional tenancy area works allowances at expiry of each lease, as discussed in Sections 5.9 and 5.10.
- The Contract for Sale is subject to incentives being "paid out" and in accordance with our instructions, our assessment of market value is on this basis. It is a critical condition of our valuation that these adjusted funds will be available to meet any liability of rental shortfall in the future. In the absence of these funds being available to offset any liability or rental shortfall, there would be an impact on the assessment of market value, and we reserve the right to review and amend our valuation if this proves to be the case.
- The Contract for Sale provided to us was signed by the purchaser, but unsigned by the Vendor. It is a critical condition of our valuation that the contract is signed by the Vendor without any amendments to the terms of sale.
- Other assumptions and conditions as outlined within.

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, Notification to Reliance Party/Parties and Disclaimers included in this report. Liability limited by a scheme approved under Professional Standards Legislation.

1.2 SWOT Analysis

Strengths

- Fully leased (aside from 1 car bay) with a medium-term WALE of approximately 4.92 years by income.
- Security of income and strong tenant covenant provided by the State of Queensland (various departments) and the Commonwealth Bank of Australia. This would be a key consideration of investors at the moment noting volatile market/economic conditions and this was demonstrated in the recent sale campaign for the property.
- Fixed annual review mechanisms of between 3.00% and 4.00% provides strong rental growth for the remainder of the current lease terms and this would be viewed favourably in the current low growth/low inflation environment.
- Somewhat diversified lease expiry profile, with the largest near-term lease expiry comprising 31.4% of NLA (Department of Emergency Services) in May 2023.
- Good retention prospects for the Emergency Services lease expiry noting the infrastructure incorporated into the tenancy.
- Improvements should have reasonably minimal capital expenditure requirements in the short to medium term.

Weaknesses

- Limited make good obligations upon expiry in the current leases, resulting in potentially increased capital expenditure costs. We note that this is typical for Government leases.
- Potential large-scale tenants are limited to primarily government agencies which may result in extended letting up periods or future vacancies if the tenants were to vacate (particularly the larger tenants within the building).
- Purchasers are cautious of regional locations in prevailing market conditions, which may reduce liquidity of the asset relative to assets located within prime metropolitan locations although this is offset by the cash flow/tenant profile (which investors are placing increasing weight on currently) as demonstrated in the recent sale campaign for the property.

Opportunities

- Successfully renegotiate any short-term expiries on assessed market terms (or better) to secure the income profile.
- Emerging regional industries may result in the attraction of larger corporate office users to increased tenant market depth in the future.
- Increased Government expenditure on major projects within the Townsville region may stimulate the economic environment.

Threats

- Emergency Services (31.4% of NLA) expiring in May 2023 is the main leasing/cash flow risk for the property. Noting the configuration of the tenancy and lack of make good requirements in the lease, there may be substantial tenancy area capital expenditure required if the tenant were to vacate.
- If the larger tenants (Emergency Services – 1,569m² and Public housing – 1,838m²) were to vacate, there may be substantial loss of NLA if the tenancies needed to be divided to suit smaller leasing requirements.
- Reduced WALE may result in value reductions in the future.
- Future competition derived from new development if the market was to experience recovery or a significant boom.
- Delayed recovery (or stalling of business decisions by tenants) in Queensland's office leasing market may dampen rental growth and increase rental downtime pressure for current/future vacancies over the short-term.
- Future increases in the property's Site Value may result in increased statutory expenses.
- Noting the high levels of demand for real estate investment assets over the past 24 months, there has been a substantial tightening in yields over this period (particularly for secondary assets or those assets in secondary locations), which has been driven by investor demand, limited availability of prime investment stock and low interest rate conditions. If broader market conditions were to unwind, it is likely the liquidity of this asset may be impacted. We recommend that this is monitored, particularly in the context of the current COVID-19 pandemic.
- We consider regional assets would likely be more greatly impacted relative to those in core office locations and that this will need to be closely monitored while current conditions persist.

Buyer Profile

- We consider the most probable purchaser to be either a mid-tier fund manager or property syndicate.
- Selling period of up to six months under normalised market conditions, however noting current COVID-19 conditions this is likely to extend beyond this timeframe should the property be offered for sale and may be up to a 12-month period.

1.3 Tenancy Overview

No. Office Tenancies: 5
No. Retail Tenancies: 3
No. Car Bays: 102

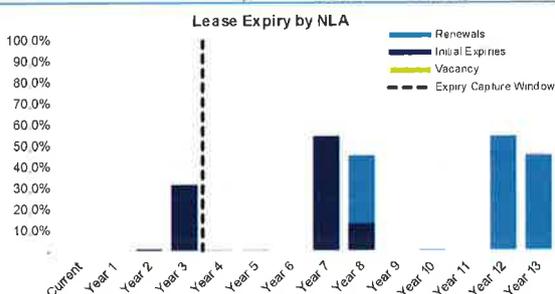
WALE (by Income): 4.92 years
WALE (by Area): 5.10 years
Vacancy: Nil - Fully Leased

Major Tenant Summary

Major Tenants	NLA (m ²)	% of NLA	% of Passing Income	% of Market Income
Department of Emergency Se	1,569	31.35%	32.20%	32.17%
Department of Housing	1,838	36.73%	29.78%	29.75%
Commonwealth Bank of Aust	569	11.37%	15.64%	15.63%
Queensland Police Service	652	13.03%	12.16%	12.15%
State of QLD (Public Safety)	293	5.86%	5.10%	5.10%
Total	4,921	98.34%	94.88%	94.79%

Area Summary

	Car Spaces	NLA (m ²)	%	Occupied (m ²)	Vacant (m ²)	Vacant %
Office	-	4,921	98.34%	4,921	-	-
Retail	-	83	1.66%	83	-	-
Car Parking	102	-	-	-	-	-
Total	102	5,004		5,004	-	-

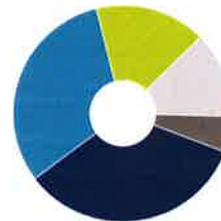


Expiry Profile (Initial Expiries)

Year	Year Ending	NLA (m ²)	% NLA
1	Current Vacancy	-	-
2	Mar-22	-	-
3	Mar-23	35	0.70%
4	Mar-24	1,569	31.35%
5	Mar-25	30	0.60%
6	Mar-26	18	0.36%
7	Mar-27	-	-
8	Mar-28	2,700	53.96%
9	Mar-29	652	13.03%
10	Mar-30	-	-
11	Mar-31	-	-
12	Mar-31	-	-
13	Mar-31	-	-
Total		5,004	100.00%

Tenant Composition by Gross Passing Income

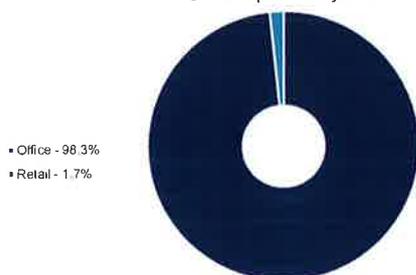
- Department of Emergency Services - 32.2%
- Department of Housing - 29.8%
- Commonwealth Bank of Australia - 15.6%
- Queensland Police Service - 12.2%
- State of QLD (Public Safety) - 5.1%



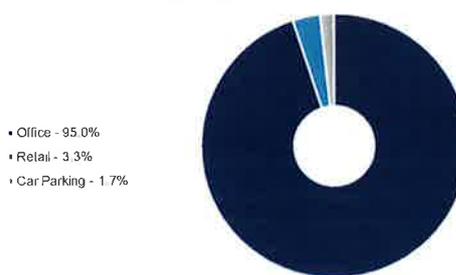
Income Summary

Income Type	Gross Passing Income		Gross Market Income		% Differential
	\$ pa.	\$/m ²	\$ pa.	\$/m ²	
Office	1,961,799	399	1,961,799	399	-
Retail	68,998	831	68,998	831	-
Car Parking	35,161	-	35,161	-	-
Sundry Income	1,607	-	1,607	-	-
Gross Income	2,067,565	413	2,067,565	413	
Less: Outgoings	(409,510)	(82)	(409,510)	(82)	-
Net Income (Before Incentives)	1,658,055	331	1,658,055	331	
Less: Outstanding Rent Free Incentives & Rebates	-	-	-	-	-
Net Income (After Incentives)	1,658,055	331	1,658,055	331	
Market Income - Vacant Areas (Gross)	2,040	-	2,040	-	-
Potential Fully Leased Net Income	1,660,095	332	1,660,095	332	

Use Composition by NLA



Use Composition by Gross Passing Income





1.4 Valuation Summary

Capitalisation Approach

Expiry Allowances	36 months	capturing 32% of NLA	
Adopted Net Market Income		1,660,095	
Capitalisation Rate	6.50%	6.25%	6.00%
Core Value Range	25,539,918	26,561,515	27,668,245
Less: Adjustments	(762,705)	(767,084)	(771,508)
Resultant Value Range	24,777,213	25,794,431	26,896,737
Capitalisation Value Range (rounded)	24,750,000	26,000,000	27,000,000
Resultant \$rate/m ²	4,946	5,196	5,396

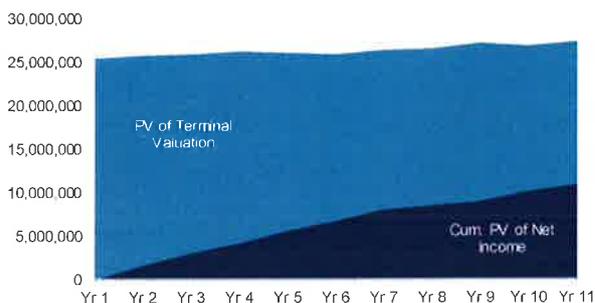
Discounted Cash Flow Approach (10 years) - Inputs

	Face	Effective
10 Year CAGR (Office) - Gross	2.76%	4.05%
10 Year CAGR (Office) - Net	2.97%	4.77%
10 Year CAGR (Retail) - Gross	1.91%	1.91%
Discount Rate	6.75%	
Terminal Yield	6.50%	+ 25.0 bp spread
Terminal Expiry Allowances	24 months	capturing 54% NLA
Total Capex (10 Years)	1,516,078	(\$303/m ² of NLA)

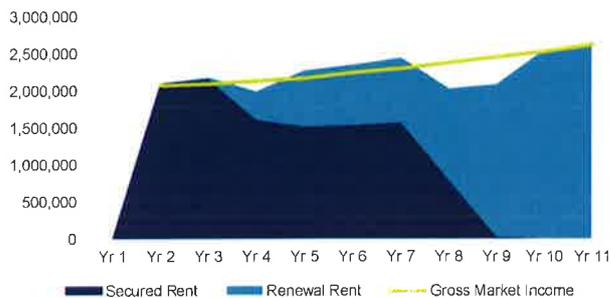
Discounted Cash Flow Approach - Outputs

Sum of Discounted Cash Flows	10,960,780
Present Value of Terminal Value	16,397,525
NPV (before acquisition costs)	27,358,305
Acquisition Costs	(1,609,312)
NPV (after acquisition costs)	25,748,993
Rounded NPV	25,500,000

Sum of Parts DCF Valuation



Income Summary

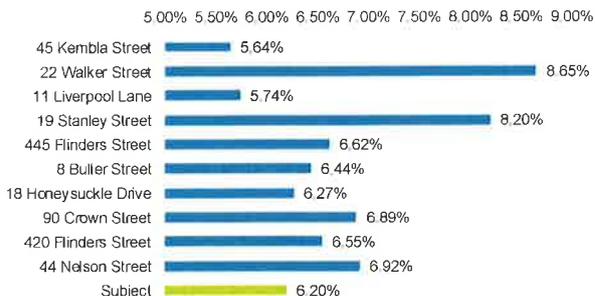


Valuation Summary

Adopted Market Value (100% interest)	26,000,000
Passing Initial Yield (after rental abatements)	6.38%
Passing Initial Yield (before rental abatements)	6.38%
Fully Leased Initial Yield (after abatements)	6.38%
Adopted Capitalisation Rate	6.25%
Market Yield (Analysed Capitalisation Rate)	6.20%

Internal Rate of Return (after costs) 10 yrs	6.61%
7 yrs	6.01%
5 yrs	5.11%
3 yrs	4.83%
Total Outstanding Incentives	-
PV of Outstanding Incentives	-
Rate per square metre of NLA	5,196

Core Market Yield Comparison



Running Yield

