

Valuation Report

8 - 12 Seymour Street
Traralgon Vic 3844

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Valuation Executive Summary

8 - 12 Seymour Street, Traralgon



Property Description.

Property Type	Circa 2015 built, four level commercial office building, with a ground level retail component, and on-site car parking, largely leased to the State of Victoria.
Highest and Best Use	Continued commercial / retail use.
Building Area - NLA	2,739 sq.m.
Car Parking	71 spaces (2.59 cars per 100 sq.m.)
Site Area	1,524 sq.m.
Zoning	Activity Centre Zone 1 (ACZ1)
Overlays	Parking Overlay Precinct - Schedule 1 (PO1)
Title Details	Volume 11565 Folio 509
Registered Proprietor	The Trust Company Pty Ltd
NABERS Rating	Does not have a current rating

Occupancy Summary.

Office Lessee	State of Victoria
Term	10 + 5 + 5 Years
Commencement Date	18 May 2015
Remaining Lease Term	Approximately 44 months
Current Rental	\$1,047,498 p.a. gross (inclusive of car parking)
Reviews	Fixed 3% p.a., with a market review at the exercise of a further option period.
Outgoings	Lessor's responsibility
Café Lessee	Marcus Adam Fraser
Term	5 + 3 + 3 years
Commencement Date	17 April 2017
Remaining Lease Term	Approximately 7 months.
Current Rental	\$31,601 p.a. net
Reviews	CPI annually, with a market review at the exercise of any further option period.
Outgoings	Lessee responsibility, excluding Land Tax
WALE by Income	Approximately 43 months / 3.6 years
Note	There is additional income from casual car parking.

Instructions.

Instructing Party	MPG Funds Management Ltd ATF MPG Regional Cities Property Trust
Ordered By	Brett Gorman
Interest Valued	Freehold interest subject to leases
Date of Instruction	24 August 2021
Borrower / Applicant	The Trust Company Ltd

Valuation Methodology.

Primary Method	Income Capitalisation Refer to Assumptions / Qualifications - Definitions of Valuation Approaches
Secondary Method	Direct Sales Comparison

Valuation Summary.

Date of Inspection & Valuation	10 September 2021 Refer to Assumptions / Qualifications - Date of Valuation
Passing Net Rental	\$897,187 p.a.
Assessed Net Rental	\$897,187 p.a.
Yield Adopted	7.0%
NLA Value Rate	\$4,500 - \$4,750 p.s.m.
Valuation	\$12,750,000 (Exclusive of GST) Twelve Million Seven Hundred and Fifty Thousand Dollars

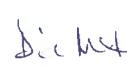
Mortgage Recommendation.

Purpose	First mortgage security purposes. Refer to Valuation & Valuation Compliance Statement - Mortgage Recommendation
Suitability	At the assessed value, \$12,750,000 (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


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NOTE - This Valuation Executive Summary should be read in conjunction with the Risk Profile;
Valuation Report and Assumptions / Qualifications.
J154667:SL:NK

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Risk Profile

8 - 12 Seymour Street, Traralgon

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.

- This Report is for the use of the Instructing Party only. It 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 Instructing Party expressly named in this Report.
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Asset.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- A circa 2015 built, four level commercial building, comprising a ground level entry foyer and café with undercover secure car parking behind, first level car parking and two upper levels of office accommodation.
- The improvements are erected over a rectangular *Commercial 1 Zone* site of 1,524 sq.m., situated on the northern side of Seymour Street and having secondary frontages along its eastern and northern boundary to Methodist Lane. The surrounding development comprises a mix of office buildings and retail premises, with the property being towards the eastern periphery of the Traralgon Central Activities Precinct.
- The improvements are well maintained / presented and provide an attractive standard of accommodation suitable for Government tenants. Overall, we are of the opinion there would be minimal capital expenditure requirements in the short to medium term.
- The property is located in the regional Victorian town of Traralgon, within the Latrobe Valley in Gippsland, approximately 150 kilometres east of Melbourne. The population is approximately 30,000 people, with continual growth over the past few years.
- We note that the property could be leased and occupied by a range of alternative commercial users given the location and nature of improvements noting its current use as a commercial office.
- The building is flexible as to design and can be occupied as a whole, on a floor by floor basis, or alternatively, and without significant loss of NLA, the floors could be split to provide multiple occupancies per level.
- A search of the Building Energy Efficiency Register and Register of Recognised Ratings on the NABERS website indicates the subject building does not have a current valid NABERS Energy Rating (refer *Critical Matters* for further commentary). We do note that the property has previously held a NABERS Energy Rating of 5.5 Stars.

Cash Flow.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- Currently the building is essentially 100% occupied with 96% of the income contributed by the State of Victoria (Environment Protection Authority and the Department of Human Services), with the balance contributed by the café at the ground level. There is further income derived from casual licenced car parking, but because of its short term nature we have excluded it from these percentages, however have accounted for it within our valuation calculations.
- Based on the current leases, the building provides a Weighted Average Lease Expiry (WALE) of approximately 43 months / 3.6 years (by income).
- The State of Victoria occupy Levels 2 & 3, pursuant to a 10 year lease which commenced 18 May 2015. There is approximately 44 months until expiry of the current lease term. There are two further 5 year option periods.
- The ground level café is leased for a 5 year term which commenced 17 April 2017. There is approximately 7 months until expiry of the current lease term. There are two further 5 year option periods. Notwithstanding, the tenant has recently vacated the premises, although are still paying the rent and fulfilling all obligations under the Lease until

expiry in approximately 7 months. Noting the current leasing situation, we have made appropriate allowances in relation to re-leasing the premises within our valuation calculations in subsequent sections of this report. Notwithstanding, given there is approximately 7 months for a new tenant to be secured, our allowances only relate to an appropriate incentive, together with agents' fees, advertising and legal fees and does not incorporate a leasing up period, which is already occurring, or an allowance for rates and taxes.

- The passing rental levels for both tenancies are considered to be at fair market levels, and have been adopted within our assessment.
- Our enquiries indicate no rental or outgoings arrears in relation to the leases.
- A leasing period of up to 9 - 12 months could be expected for a property of this nature in the event of vacancy.
- There is risk of increased outgoings acknowledging that the municipal rating assessments are marginally below our assessed market values and which could therefore impact the net income.
- There are no outstanding incentives.

COVID-19 Rent Relief.

- The Commercial Tenancies Relief Scheme (CTRS) has been reinstated to provide rent relief for small to medium commercial tenants and their landlords. Legislation is to be reintroduced to enact the Scheme, which will be applied from 28 July 2021 to ensure rent relief starts immediately for eligible tenants. Under the scheme, landlords will be required to help eligible businesses that have endured a serious trading downturn. The Scheme will be available to businesses with an annual turnover of less than \$50 million and which have had a decline in turnover of at least 30% due to COVID- 19. The scheme expires 15 January 2022.
- Discussion with the registered proprietor has revealed that there are no on-going rent relief arrangements with the tenants. Notwithstanding, this may change going forward.

Market.

LOW

LOW - MEDIUM

MEDIUM

MEDIUM - HIGH

HIGH

- There were minimal sales transactions within this market segment during 2020 due to the Coronavirus (COVID-19) pandemic. The market came to a virtual standstill for several months, although following the conclusion of the second lockdown in late 2020, a small number of regional Victorian office buildings were offered to the market, which were met with a good level of interest, indicating a resilience for this asset class. The regional office market is being viewed by some as a more attractive investment proposition, as more tenants look to decentralise operations away from a city environment. Throughout regional Victoria, the strongest demand has been for recently built facilities, occupied by "blue chip" tenants, which are subject to secure and long term leases. So far in 2021, regional office buildings (most leased by government tenants) which have been made available for sale, have been met with a good level of demand.
- Over the past 18 months, yield rates for regional commercial investments have demonstrated a wide range of say 5.0% - 8.0% for the majority of sales, 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 or strong redevelopment potential. The value rates generally demonstrate a range of say \$2,750 - \$6,000 p.s.m.
- More generally, COVID-19 continues to have a disruptive impact on the economy, and with market and regulatory interruption to business cashflows and the undermining of sentiment, may still have some negative impact on real estate values.
- We note that whilst the building was purpose built for the current government tenant, it could be leased and occupied by a range of alternative commercial users given the location and nature of improvements.
- Demand for Government occupied investments is good / strong as investors look for greater security of income offered by government leases.
- The subject property falls within a considered high capital value for a regional commercial asset, which would likely reduce the buyer pool in the notional event of a sale.
- 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 decline and/or interest rates rise.

Critical Matters.

- We have not been provided with any planning approval detail in respect of the existing accommodation and this valuation is therefore subject to full compliance in this regard.
- Because of a lack of appropriate quality and size of available accommodation in regional cities, assets such as the subject property are often developed on the basis of a pre-commitment and targeting a particular standard of building quality (energy ratings, lift services, air conditioning capacity, etc.). As a result, the commencing rentals often reflect an economic return on investment for the developer as opposed to prevailing rental levels for existing accommodation, which is often older and out dated by comparison. Although these rental levels can be supported by other evidence, there is the risk at lease expiry if the tenant vacates that the rental could reduce to those levels more in line with other more generic office accommodation. Accordingly as the lease term diminishes, the risk of vacancy will become more of a consideration in the market coupled with what the then level of rental may be and whether or not there is sufficient demand for larger spaces from alternative tenants. These considerations will impact an investor's decision making process and assessment in relation to matters such as yield, vacancy allowance, rental levels, necessary incentives, etc.
- We highlight the subject property does not have a current NABERS rating. Pursuant to the *Building Energy Efficiency Act 2010* a Building Energy Efficiency Certificate (BEEC) would be required in order to sell the property. Accordingly our assessment has been undertaken on the basis a NABERS rating is obtained. With reference to the Commercial Buildings Disclosure website as at September 2021, indicatively this can take up to eight weeks and cost \$4,000 - \$13,000 depending on the size and complexity of the property.
- The subject property is located within an area of *Aboriginal Cultural Heritage Sensitivity* as described in the *Aboriginal Heritage Regulations 2018*. We refer you to the *Aboriginal Cultural Heritage Sensitivity* section within the body of this report for further comment.

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 uncertainty around the ongoing 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.
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Key Data.

We provide a summary of the key valuation data below:

Assessed Value	\$12,750,000																				
Passing Net Rental	\$897,187 p.a.																				
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Initial Yield	7.04%																				
Market Yield	7.00%																				
Building Value Rate	\$4,500 - \$4,750 p.s.m. (\$4,655 p.s.m. – actual)																				
Leasing Period	9 to 12 Months																				
WALE (By Income) / Remaining Lease Term	Approximately 43 months / 3.6 years																				
Major Tenant	The State of Victoria (Environment Protection Authority and the Department of Human Services) – 96% of the total NLA.																				
Lease Expiry Profile	<table border="1"> <caption>Lease Expiry Profile Data</caption> <thead> <tr> <th>Lease Term</th> <th>% of Total NLA</th> <th>% of Total Income</th> <th>No. of Occupancies</th> </tr> </thead> <tbody> <tr> <td>2021-2022</td> <td>~5%</td> <td>~2%</td> <td>1</td> </tr> <tr> <td>2022-2023</td> <td>0%</td> <td>0%</td> <td>0</td> </tr> <tr> <td>2023-2024</td> <td>0%</td> <td>0%</td> <td>0</td> </tr> <tr> <td>2024-2025</td> <td>~96%</td> <td>~96%</td> <td>1</td> </tr> </tbody> </table>	Lease Term	% of Total NLA	% of Total Income	No. of Occupancies	2021-2022	~5%	~2%	1	2022-2023	0%	0%	0	2023-2024	0%	0%	0	2024-2025	~96%	~96%	1
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