Valuation Advisory

Report prepared for PMG Direct Childcare Fund Trustees Limited c/- Property Managers Group for Capital Raising purposes

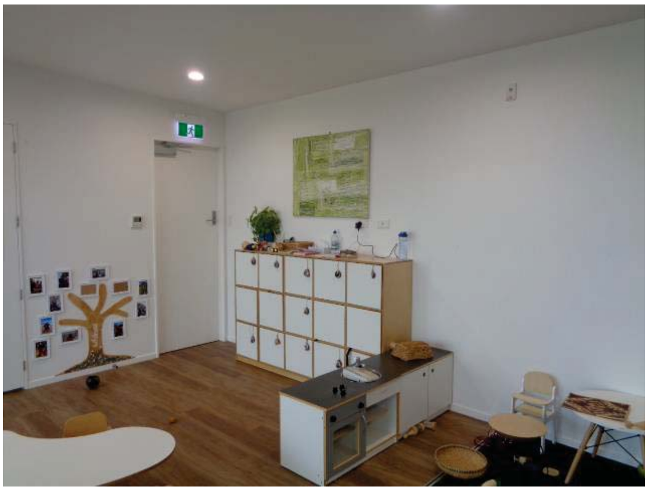
Omaka Early Learning Centre

25 Spitfire Drive, Burleigh, Blenheim

29 July 2020

Executive Summary

Omaka Early Learning Centre - 25 Spitfire Drive, Burleigh, Blenheim



The subject property comprises a newly constructed childcare facility occupying a level corner land holding of approximately 2290 square metres located in the new Omaka Landing subdivision situated on the eastern outskirts of Blenheim. The centre is licensed for 80 children.

The centre comprises a 450sqm (approx.) facility containing multiple indoor areas catering for specific child age brackets and with associated sleeping rooms, children's bathrooms, a kitchen, office and changing rooms.

In addition to the building there is an outdoor play area of approximately 700sqm along with onsite car parking for 20 vehicles.

The property is leased to Omaka Early Learning Centre on an initial 15 year term from April 2019 with 2 further rights of renewal of 10 years each available. Commencement rental is set at $208,000 plus GST per annum on a net basis which equates to $50 per week per child, which is considered to be in the upper bracket of market levels.

In accordance with specific instructions we have assessed current market value to the property for first mortgage security purposes and financial reporting purposes.

The emergence of the Novel Coronavirus (COVID-19) and associated restrictions have had a significant impact globally and in New Zealand. Locally the restrictions on people and businesses are now being relaxed, however the economic impacts of the virus and associated restrictions are likely to continue for some time.

We have previously prepared a full report for the property which complies with Valuation Standards. Due to the purpose of this valuation, the fact that content is likely to be readily available on the Companies Office website and potential breaches of confidentiality, this report has been provided in an abbreviated format.

Valuation

Prepared for	PMG Direct Childcare Fund Trustees Limited c/- Property Managers Group
Valuation Purpose	Market Valuation for Capital Raising
Date of Valuation	29 July 2020
Date of Report	30 July 2020
Valuation Approaches	Capitalisation of Net Income and Discounted Cashflow Approaches
Zoning	Urban Residential 1 – Proposed Marlborough Environment Plan
Tenure	Freehold – Record of Title 799514
Site Area	2,290 sqm
Lettable Area	450 sqm
Adopted Value	**$3,525,000 plus GST, if any**
	Three Million Five Hundred Twenty Five Thousand Dollars plus GST, if any

Valuation Analysis

Initial Yield	5.90%	Rate / sqm of Lettable Area	$7,833
Initial Yield (Fully Leased)	5.90%	Weighted Average Lease Term	13.75 years by income
Equivalent Yield	5.90%	Current Occupancy	100.00%
Internal Rate of Return (10 years)	7.71%	Current Vacancy	0.00%

Tenancy Overview

Omaka Early Learning Centre	$208,000	450 sqm

Financial Summary

Gross Passing Income	$227,778
Gross Market Income	$227,778
Adopted Outgoings	$19,778
Net Passing Income	$208,000
Net Passing Income (Fully Leased)	$208,000
Net Market Income	$208,000

Cap Approach Assumptions

Adopted Cap Rate	6.00%
Allowance for Capex/Expiries	24 months
Market Income Capitalisation	$3,470,000
Passing Income Capitalisation	$3,470,000

DCF Approach Assumptions

Discount Rate	7.50%
Terminal Yield	6.25%
Average Applied Rental Growth	2.12%
Value Based on DCF Approach	$3,580,000

Valuers

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This is a summary only. It must not be relied on for any purpose. Jones Lang LaSalle's valuation of this asset is subject to assumptions, conditions and limitations as set out in the full text of this Valuation Report.

Critical Assumptions, Conditions & Limitations

- The valuation is current as at the date of valuation only, being 29 July 2020. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property).
- We do not accept liability for losses arising from such subsequent changes in value. Without limiting this statement, we do not accept any liability where this valuation is relied upon more than 90 days after the date of valuation, or earlier if you become aware of any factors that may have any effect on the valuation.
- This report is relevant at the date of preparation and to the circumstances prevailing at that time. However, within a changing economic environment experiencing fluctuations in interest rates, inflation levels, rents and global economic circumstances, acceptable returns on investment may, as a consequence, be susceptible to future variation. We therefore recommend that before any action is taken involving an acquisition, disposal or other transaction more than 90 days after the date of this report, you consult the Valuer.
- This valuation has been completed for the specific purpose stated in this report. No responsibility is accepted in the event that this report is used for any other purpose.
- Our valuation assumes the information provided by the instructing party or its agents is correct and we reserve the right to amend our calculations, if deemed necessary, if that information is incorrect.
- Our valuation assumes all other professional/consultancy advice provided and relied upon is true and correct.
- We have relied on building areas, income figures and expense figures as provided by the instructing party or its agents and made specified adjustments where necessary. Where possible these have been verified through lease documentation and physical measurements.
- Unless otherwise stated all property measurements are in conformity with the Guide for the Measurement of Rentable Areas issued by the Property Council of New Zealand. Where certified areas have not been provided we have normally undertaken measurement in accordance with Property Council of New Zealand Standards.
- We have relied on the land dimensions and areas as provided in the Record of Title as searched. In certain cases physical checking of land dimensions and areas is difficult or not practical due to proximity of adjoining buildings, steep terrain or inaccessible title boundaries. Jones Lang LaSalle accepts no responsibility if any of the land dimensions or the area shown on title is found to be incorrect.
- Our valuation is made on the basis that the property is free of further caveats, mortgages, charges and other financial liens and that there are no memorials, encumbrances, restrictions or other impediments of an onerous nature which will affect the value other than those stated in the report or registered on the Record of Title.
- Enquiries as to the financial standing of actual or prospective tenants are not normally made unless specifically requested. Where properties are valued with the benefit of leases it is therefore assumed that the tenants are capable of meeting their obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.
- In the case of buildings where works are in hand or have recently been completed Jones Lang LaSalle does not normally make allowance for any liability already incurred but not yet discharged in respect of completed works or obligations in favour of contractors, sub-contractors or any members of the professional or design team.
- No enquiries in respect of any property, or of any improvements erected thereon, has been made for any sign of timber infestation, asbestos or other defect, whether latent, patent, or structural.
- Substances such as asbestos or other potentially hazardous materials could, if present, adversely affect the value of the property. The stated value estimate is on the assumption that there is no material on or in the property that would cause loss in value. No responsibility is assumed for any such conditions and the recipient of this report is advised that the valuer is not qualified to detect such substances or estimate the remedial cost.
- While due care has been taken to note any contamination liability, our investigations have been undertaken for valuation purposes only, and this report does not constitute an environmental audit. Unless otherwise stated no account has been taken of the effect on value due to contamination or pollution.
- We have undertaken a visual inspection in respect of any building valued, but must advise that we have not commissioned structural surveys or tested any of the services and are therefore unable to confirm that these are free from defect. We note further that we have not inspected unexposed or inaccessible portions of any building and are therefore unable to certify that these are free from defect.
- We note we are not experts in relation to assessing the condition of the building structure and cladding, or in assessing the impact or otherwise of water/weather penetration issues. Should the building prove to have structural or weather penetration issues we reserve the right to amend the valuation assessment and any recommendations contained within this report.

- Any elements of deterioration apparent during our consideration of the general state of repair of building/s has been noted or reflected in our valuation. We are however, unable to give any warranty as to structural soundness of any building and have assumed in arriving at our valuation that there are no structural defects or the inclusion of unsatisfactory materials.
- In preparing the valuation it has been assumed that items such as lifts, hot and cold water systems, electrical systems, ventilating systems and other devices, fittings, installations or conveniences as are in the building are in proper working order and functioning for the purposes for which they were designed, and conform to the current building, fire and government regulations and codes.
- Information on town planning and resource management is often obtained verbally from the local planning authority and if assurance is required Jones Lang LaSalle recommends that verification is sought from the relevant authority that confirms the position is correctly stated within this report, that the property is not subject to other decisions or conditions prescribed by public authorities and that there are no outstanding statutory notices.
- Jones Lang LaSalle's valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory regulations including the Building Act 2004 and the requirements of Territorial Authorities. Where we have obtained a Land Information Memorandum, we comment on this within our report. Where we have not obtained a Land Information Memorandum our valuation is therefore undertaken with the assumption that there are no outstanding requisitions.
- Unless otherwise stated all currencies within this report are in New Zealand Dollars.
- Non-residential valuations are (unless otherwise stated) carried out on the basis that the valuation is plus GST (if any). Residential property valuations are (unless otherwise stated) carried out on the basis that the valuation includes GST (if any).
- A reliant party can only rely on this valuation if received directly from JLL without any third party intervention.

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Appendices

1 Introduction

1.1 Instructions

We refer to instructions from PMG Direct Childcare Fund Trustees Limited requesting that we undertake a market valuation of the freehold interest of 25 Spitfire Drive, Burleigh, Blenheim (the Subject/Property), as at 29 July 2020 for and on behalf of PMG Direct Childcare Fund Trustees Limited c/- Property Managers Group. We understand that the valuation is to be relied upon for Capital Raising purposes only.

We have previously prepared a full report for the property which complies with Valuation Standards. Due to the purpose of this valuation, the fact that content is likely to be readily available on the Companies Office website and potential breaches of confidentiality, this report has been provided in an abbreviated format.

Our report has been prepared in accordance with the current Australia and New Zealand Property Institute's Valuation Standards, International Valuation Standards and the instructing parties valuation brief, and we confirm that the prime signatory:

- is independent of both the Instructing Party and Report Recipient;
- is authorised, under The Valuers Act 1948 to practise as a Valuer;
- is suitably registered and qualified to carry out valuations of such property;
- has no pecuniary interest that could reasonably be regarded as being capable of affecting that person's ability to give an unbiased opinion of the Property's value or that could conflict with a proper valuation of the Property;
- has satisfied professional education requirements and has experience in the location and category of property being valued or where applicable, has sought the advice of suitably qualified professionals who hold locational expertise; and
- has made a personal inspection of the property.

We confirm:

- the statements of fact presented in the report are correct to the best of the Valuers knowledge;
- the analyses and conclusions are limited only by the assumptions and conditions which follow within this report;
- the firm, Jones Lang LaSalle and the undersigned Valuers do not have a direct or indirect pecuniary interest in the subject property;
- the professional fee charged in relation to this assignment has not been contingent upon any aspect of this report;
- the valuation contained herein has been performed in accordance with PINZ / NZIV Codes of Ethics and Conduct;

Our report is confidential to the party or parties to which it is addressed, for the specific purpose to which it refers. No responsibility is accepted to any third parties. Neither the whole of the report or any part of it or any reference to it, may be published in any document, statement or circular or in any communication with third parties without our prior written approval of the form and context in which it will appear. Furthermore, this report can only be relied upon when the given party has received the report directly from JLL.

1.2 Valuation and Inspection Dates

The key dates that are relevant for our valuation are shown below:

Date of Valuation	29 July 2020
Date of Property Inspection	29 July 2020
Date of Preparation of Report	30 July 2020

1.3 Basis of Valuation

Market Value

The value given herein is that of the market value of the Property as defined by the International Valuation Standards Committee (IVSC), and endorsed by the API and PINZ, which is as follows:

"Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

We confirm that this valuation has been undertaken on the basis of the price that might reasonably be expected if the Property was sold at the date of valuation assuming:

- a willing, but not anxious, buyer and seller;
- a reasonable period within which to negotiate the sale, having regard to the nature and situation of the Property and the state of the market for property of the same kind;
- that the Property was reasonably exposed to that market;
- that no account is taken of the value or other advantages or benefit additional to market value, to the buyer incidental to ownership of the property being valued;
- that the current proprietor has sufficient resources to allow a reasonable period for the exposure of the Property for sale; and
- that the current proprietor has sufficient resources to negotiate an agreement for the sale of the Property.

Included within this valuation are lessor-owned items of building fixtures, fittings, plant and equipment. These items exclude all movable equipment, furniture, furnishings and tenant owned fit-out and improvements.

1.4 Relevant Valuation Standards & Disclosures

The valuations contained herein have been completed in accordance with current Australia and New Zealand Valuation and Property Standards, and in particular with:

- IVS (International Valuation Standards 2020) Framework and General Standards
- ANZVTIP 11 – Valuation Procedures – Real Property

1.5 Information Sources

The information reviewed or previously provided includes, but is not limited to, the following:

- Record of Title particulars memorialised by Land Information New Zealand;
- Resource Management classifications and controls as stated within the District Plan of the governing Territorial Local Authority;
- Sales and leasing data from various industry sources, including real estate agents;
- Market research and forecasts from JLL Research; and
- Lease documentation, building area and budgets supplied by the instructing party.

Our valuation is based on a significant amount of information that has been sourced from the instructing party or managing agent and other third parties. We have relied upon the accuracy, sufficiency and consistency of the information supplied to us. Jones Lang LaSalle accepts no liability for any inaccuracies contained in the information disclosed to us.

1.6 Specific Assumptions

The Novel Coronavirus (COVID-19) was declared a 'Global Pandemic' by the World Health Organisation on 11 March 2020. This led to a significant range of restrictions on individuals and businesses locally and throughout the world. New Zealand is now at COVID-19 Alert Level 1, which provides for essentially life and business as normal, albeit with continued constraints on international travel.

The restrictions over the last few months have resulted in volatility in the financial and property markets, and we note that transactions agreed prior to or during the restrictions may or may not be indicative of current market conditions. We refer to the definition of Market Value outlined above and the principles of '*willing buyer*', '*willing seller*' acting '*prudently and without compulsion*' as adopted within our valuation.

Given the circumstances of COVID-19, we have had regard to a range of inputs and market evidence in coming to our opinion of Market Value. Notwithstanding this, there may be a greater range around our opinion of Market Value than would normally be the case, and we recommend interested parties re-confirm the value noted within with us prior to reliance.

2 Property Particulars

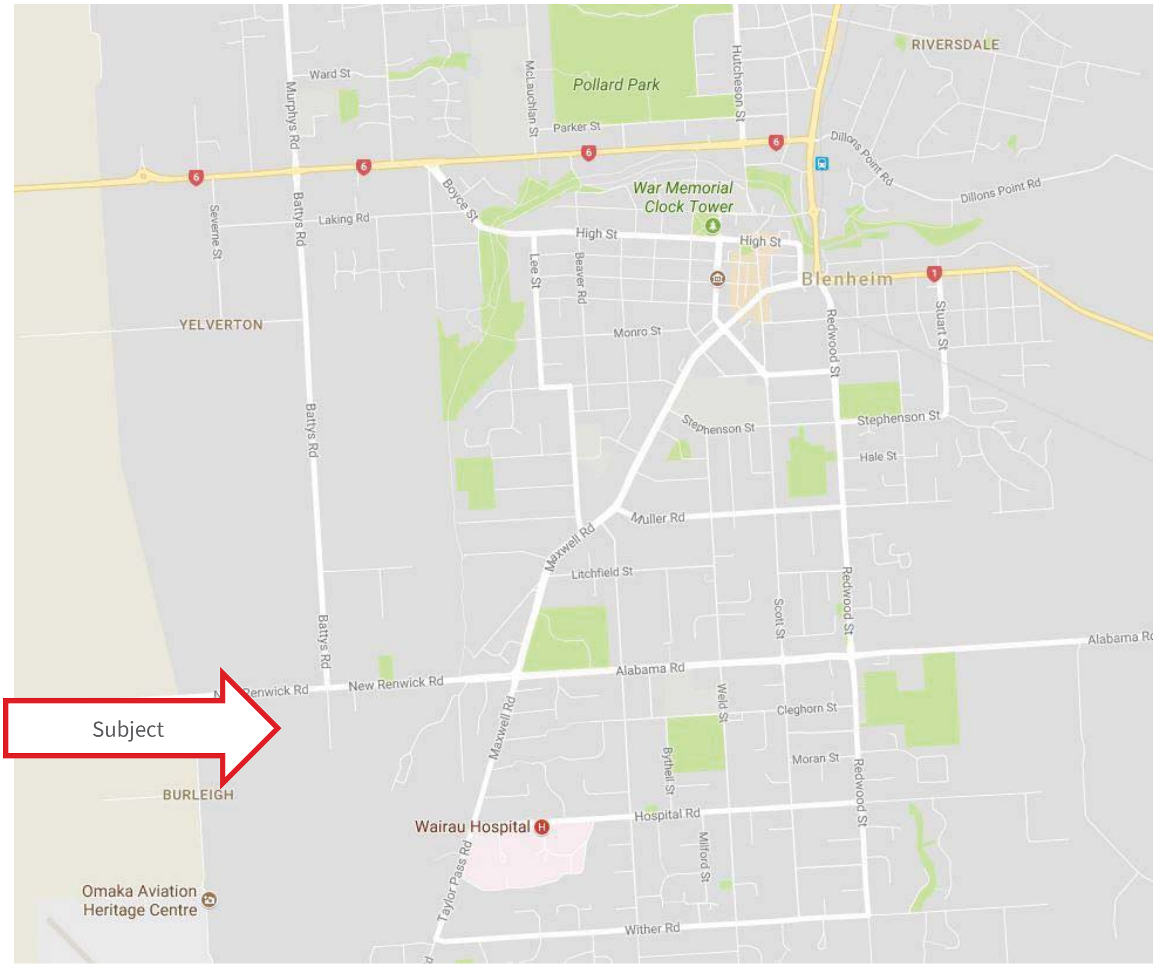
2.1 Location

The subject site is located at 25 Spitfire Drive, Blenheim within Omaka Landing which comprises a newly developed residential subdivision. There are a number of homes either recently completed or under construction at present. The roadways feature cambered asphalt roading with tiling at the entrance to each street, grass verges, planted trees and street lighting. The subdivision has a number of streets named after World War II aircraft.

Blenheim is the major population base for Marlborough, and Marlborough is New Zealand's largest wine growing region and home of world renowned Sauvignon Blanc. Marlborough has a population base of 31,600 (June 2018) which continues to grow as a result of thriving industries (wine, agriculture, and farming) and the lifestyle afforded by the Marlborough Sounds, vineyards, wineries and general climate around Blenheim.

The site is located close to a number of primary schools and is a fully growing suburb of Blenheim.

The following map identifies the approximate location of the Property:



Source: Google Maps

2.2 Title Particulars

The property is held in one Record of Title which is referenced as follows:

Title Reference	799514
Tenure	Fee Simple
Legal Description	Lot 117 Deposited Plan 514839
Area	2290 square metres more or less
Registered Owner	PMG Direct Childcare Fund Trustees Limited
Registered Interest	▪ Subject to Section 206 Land Act 1924 ▪ Land Covenant in Easement Instrument 10416367.3 - 8.8.2016 at 3:35 pm ▪ Land Covenant in Easement Instrument 10416367.11 - 8.8.2016 at 3:35 pm (Limited as to duration) ▪ Land Covenant in Easement Instrument 10615980.13 - 7.11.2016 at 10:45 am ▪ Land Covenant in Easement Instrument 10832039.15 - 25.7.2017 at 12:09 pm ▪ Land Covenant in Easement Instrument 10947608.1 - 8.11.2017 at 2:23 pm ▪ Land Covenant in Easement Instrument 10920781.10 - 16.11.2017 at 4:57 pm ▪ Land Covenant in Easement Instrument 10973121.5 - 1.12.2017 at 8:47 am ▪ 11037714.2 Consent Notice pursuant to Section 221 Resource Management Act 1991 - 26.3.2018 at 5:07 pm ▪ Land Covenant in Easement Instrument 11037714.3 - 26.3.2018 at 5:07 pm ▪ Land Covenant in Easement Instrument 11037714.4 - 26.3.2018 at 5:07 pm ▪ Land Covenant in Easement Instrument 11037714.5 - 26.3.2018 at 5:07 pm ▪ Land Covenant in Easement Instrument 11037714.6 - 26.3.2018 at 5:07 pm ▪ Land Covenant in Easement Instrument 11037714.7 - 26.3.2018 at 5:07 pm ▪ 11037714.8 Encumbrance to Marlborough District Council - 26.3.2018 at 5:07 pm ▪ 11501156.1 Mortgage to ASB Bank Limited - 8.11.2019 at 12:34 pm

Source: Land Information New Zealand

The Land Covenants relate generally to allowable construction and materials within the subdivision, while the Encumbrance to Marlborough District Council relates to issues regarding fencing within the wider subdivision.

We refer you to the Record of Title appended to this report.

2.3 Site Details

The property comprises a 2290 square metre level contoured site located on the corner of Mustang Alley and Spitfire Drive. The width across Spitfire Drive is 33.87 metres with a corner splay and frontage to Mustang Alley is circa 63 metres. Access to the onsite car park is gained from the Spitfire Drive frontage and surrounding sites are all level in contour albeit slightly elevated above the road way.

The site is outlined in the following image:

Source: Property Guru

2.4 Resource Management

Local Authority	Marlborough District Council
Planning Instrument	Wairau Awatere Resource Management Plan
Operative Date	March 2009
Zoning	Urban Residential 1
Objectives	The Wairau Awatere Resource Management Plan includes the following permitted activities under the Urban Residential 1 zone: ▪ Residential activity ▪ Homestay, limited to not more than 5 visitors ▪ Home occupations ▪ Parks, reserves (owned and administered by public authority) ▪ Grazing for maintenance of open space ▪ Temporary buildings ▪ Discharges ▪ Visitor accommodation fronting onto primary arterial, secondary arterial and collector roads. ▪ Specifically identified activities listed as permitted on sites scheduled in Appendix G ▪ Community activities undertaken on existing school sites

	▪ Farming in the urban residential 2 greenfield zones subject to compliance with the conditions of the Rural 3 zone
Development Controls	▪ Minimum site size 290sqm ▪ Maximum site coverage 55% ▪ Building height 7.5m
Discretionary Activities	Application must be made for resource consent for a discretionary activity to include the following: ▪ Visitor accommodation including camping grounds ▪ Community facilities and activities ▪ Vehicle orientated activities ▪ Recreational facilities ▪ Retail facilities ▪ Educational facilities ▪ Professional offices ▪ Emergency service facilities

Community facility means the use of land and buildings for the primary purpose of public health, welfare, care, safety, education, cultural and spiritual wellbeing but excludes recreational activities. Community facilities include schools, hospitals, doctors' surgeries, veterinary clinics and other private health professionals, churches, halls, libraries, community centres, daycare centres, courthouses, community correction centres.

This would indicate the childcare facility would be classified as a discretionary activity and as a community facility under the Wairau Awatere Resource Management Plan.

We further note there is a proposed Marlborough Environment Plan which has been notified and at present is undergoing submissions. Under the proposed Marlborough Environment Plan the site would remain zoned Urban Residential 1 and largely be subject to similar controls as under the current operative Wairau Awatere Resource Management Plan.

The existing improvements would appear to not comply with the resource management requirements of the site. Further, we have assumed that the property benefits from existing use rights or has an applicable Resource Consent.

2.5 Rateable Value

We have been advised that the Property's Rateable Value, as at 1 July 2017, being Assessment Number 20331/24427, is as follows:

Land Value	$410,000
Improvements Value	$1,970,000
Capital Value	$2,380,000

We note that rating valuations do not take account of a number of key issues affecting value, including land tenure and occupancy arrangements, and are often assessed on an indexed or kerb-side basis. Accordingly, market and rating values may vary significantly.

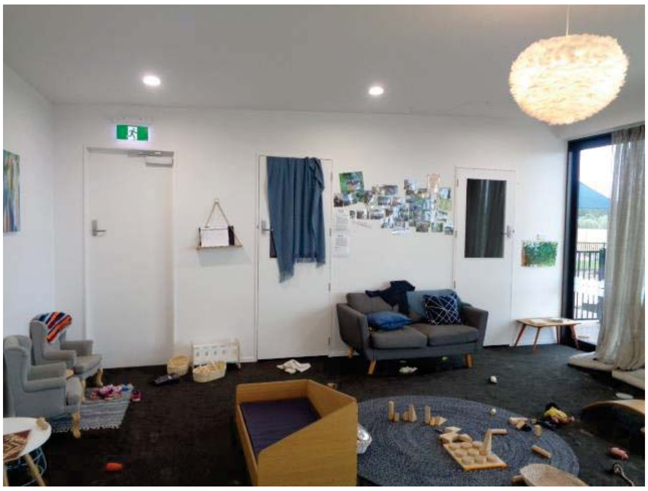
2.6 Environmental Issues

During the course of our inspection we did not notice any evidence of land or building contamination. Importantly, however, we are not experts in the detection or quantification of environmental problems and we have not sighted an Environmental Audit.

Our valuation has been made assuming an audit would be available which would satisfy all relevant environmental, and occupational health & safety legislation. If the Property's current status needs to be clarified, an Environmental Audit should be undertaken. Our valuation excludes the cost to rectify and make good the Property, which may have become contaminated as a result of past and present uses.

2.7 Improvements

The subject property comprises a purpose built childcare centre licenced for 80 children. The building was completed early 2019 and the centre provides an approximate floor area of 450 square metres over a single level configuration partitioned to provide a number of specific children age group rooms with associated sleeping rooms, children's bathrooms, a kitchen, office and changing area. Additionally there is a playground area and onsite carparking for staff and parent/caregiver drop-offs/pickups.



Interior

Exterior

2.8 Construction

We briefly outline construction details to the building as follows:

Structure:	Reinforced concrete foundation and slab floor, timber framed walls.
External Walls:	Rusticated weatherboard – James Hardie or similar.
Internal Walls:	Predominantly plasterboard wall linings with some tile feature splashbacks.
Roof:	Pre-coated longrun profile steel.
Ceiling:	Plasterboard lined.
Windows and doors:	Aluminium framed windows and exterior doors.
Site Works:	Asphalt sealed driveway/carparks Concrete pathways Mixed steel and timber fencing Various plantings

2.9 Lettable Area

The Property's total Lettable Area is approximately 450 square metres. A summary of this Lettable Area is detailed as follows:

The areas noted above have been taken from lease documentation provided by our client. Where the areas have not been surveyed we have undertaken a full measurement in accordance with the Guide for the Measurement of Rentable Areas as published by the Property Institute and Property Council of New Zealand.

2.10 Condition and Repair

We inspected the interior and exterior of the property. The building presents to a new condition having recently been completed.

Our valuation has had regard to the apparent state of repair and condition of the Property; however, we were not instructed to carry out a structural survey or to test any of the services available to the Property. We are therefore unable to report that the Property is free from further defect and we have assumed that no deleterious material was used in the construction.

A Building Warrant of Fitness is an annual certificate that confirms the Specified Systems in the building have been inspected and maintained, and that the requirements of the Compliance Schedule associated with the operation of the property in its current use have been complied with. We confirm that we have previously sighted a Warrant of Fitness for the property current through to 19 June 2020. We assume a current Warrant of Fitness has been issued for the period through to 19 June 2021.

The Health and Safety at Work (Asbestos) Regulations 2016 place requirements on building owners and occupiers in terms of assessing the risks associated with asbestos within buildings. Worksafe New Zealand recommend that buildings constructed before January 2000 are assessed for materials likely to contain asbestos, and if found, formulate a management plan.

As the building was constructed after January 2000 we have not sought further information on asbestos within the property.

2.11 Earthquake Strengthening Requirements

New Zealand is prone to seismic activity and there are requirements on building owners to ensure their buildings are safe for occupants and users as outlined in the Building Act 2004 and Amendment (Earthquake-prone Buildings) Act 2016. These regulations categorise New Zealand into three seismic risk areas and sets timeframes for identifying and taking action to strengthen or remove earthquake prone buildings.

As part of our valuation we have been made aware of the following information:

Year of Building Construction	2019
National Risk Zone	High
Compliance with New Building Standard	Assume 100% NBS or greater

We are not qualified to undertake a structural survey of the property, and have proceeded based on the information available. We recommend interested parties confirm the insurability of the subject building.

3 Property Income and Expenditure

3.1 Lease Summary

We note we are not qualified to advise you on the financial standing of the occupiers of the property. We have however formed a view on how we consider the market would approach the covenant status of the occupiers.

We have consulted with a number of market participants on the rental relief packages being offered by the institutions, syndicators and high net worth individuals. Our abatement structure has been prepared based on a market based approach.

With the ongoing reaction and impact to the Covid-19 virus, uncertain trading and credit market conditions may lead to rapid changes in covenant strength and/or sentiment.

We have been provided with a copy of the executed Lease Agreement which had attached to it a draft Deed of Lease. We summarise below the lease agreement for the property:

Lease Summary	Omaka Early Learning Centre
Documents reviewed	Omaka Early Learning Centre – or nominee
Lessee	The lessee will provide a cash bond equivalent to 6 months rental inclusive of GST
Demised premises	New premises to be constructed at Lot 117 Omaka Landing, Blenheim (25 Spitfire Drive, Burleigh, Blenheim)
Commencement Date	16 April 2019 (As per tenancy schedule provided)
Expiry Date	15 April 2034 (15 years less 1 day from commencement date)
Lease Term	Fifteen (15) years with 2 further rights of renewal of 10 years each
Commencement Rent	$208,000 per annum plus GST
Current Rent	$208,000 per annum plus GST
Rental Review Provisions	Net rent will be increased by CPI plus 1% annually during the initial term and any renewal term except years 5 and 10 where the rent shall be reviewed to market and on renewal where a market review will apply. The rent determined by market review will not be less than the rent payable prior to the relevant market review date.
Outgoings Recovery	The lessee will be responsible for all operating expenses for the premises.
Permitted Use	Childcare facility (80 children)
Special Provisions	There is a rental rebate of 50% of the annual rental of the first three (3) of the lease plus a contribution towards lessee landscaping costs in the sum of $26,000 plus GST payable after lease commencement on the receipt of validated invoices.
Emergency Provisions	We provide below an extract from Clause 27.5 of the Deed of Lease: If there is an emergency and the Tenant is unable to gain access to the premises to fully conduct the Tenant's business from the premises because of reasons of safety of the public or property or the need to prevent reduce or overcome any hazard, harm or loss that may be associated with the emergency including: (a) a prohibited or restricted access cordon applying to the premises; or (b) prohibition on the use of the premises pending the completion of structural engineering or other reports and appropriate certifications required by any competent authority that the premises are fit for use; or (c) restriction on occupation of the premises by any competent authority, then a fair proportion of the rent and outgoings shall cease to be payable for the period commencing on the date when the Tenant became unable to gain access to the premises to fully conduct the Tenant's business from the premises until the inability ceases. This subclause 27.6 applies where subclause 27.5 applies and the premises or building of which the premises form part are not totally or partially destroyed or damaged resulting in the lease being cancelled as provided for in subclauses 26.1 01

	Either party may terminate this lease by giving 10 working days written notice to the other if: (a) the Tenant is unable to gain access to the premises for the period specified in the First Schedule; or (b) the party that terminates this lease can at any time prior to termination establish with reasonable certainty that the Tenant is unable to gain access to the premises for that period. Any termination shall be without prejudice to the rights of either party against the other.

3.2 Weighted Average Lease Term

Our calculation of the property's Weighted Average Lease term is as noted below:

Weighted Average Lease Term Remaining	Years
By Area	13.75
By Income	13.75

3.3 Building Outgoings

The lease within the Property is structured on a net basis, with the tenant being responsible for the payment of rates and other property expenses in addition to premises rental.

We have adopted the following allowances for building outgoings within our calculations:

Adopted Property Outgoings	Per Annum	Per Sqm of Lettable Area
Statutory Charges	$3,421	$7.60
Operating Expenses	$16,357	$36.35
Total Outgoings	$19,778	$43.95

We consider that the adopted outgoings rate of $43.95 per square metre of Lettable Area to be in line with a childcare facility of this nature.

3.4 Income Analysis

We summarise the Property's total Passing Income as follows:

Passing Rental Analysis		
Lettable Area Rental	$208,000	91.32%
Outgoings Recovery	$19,778	8.68%
Gross Passing Income	$227,778	100.00%
Outgoings	$19,778	
Net Passing Income	$208,000	

4 Market Commentary

4.1 Economic Overview

As at 16 July 2020:

- The Consumer Price Index fell 0.5% in the June 2020 quarter, reflecting an annual inflation rate of 1.5% from June 2019. The decline for the quarter is reflective of the impact of the COVID-19 response during this time period.
- In the March 2020 quarter, Annual Gross Domestic Product (GDP) contracted 1.6%. COVID-19 had a significant effect on economic activity in the March 2020 quarter, through travel restrictions, falling terms of trade, global COVID-19 impacts and the level-4 lock down period. It is expected that the bulk of the COVID-19 impact will hit Q2 GDP.
- As at 24 June 2020, the Reserve Bank announced that the Official Cash Rate is being held at 0.25% following its emergency 75 basis point reduction from 1.00% in March 2020. It was noted that due to the economic effects of Covid-19, the Monetary Policy Committee is prepared to use additional monetary tools if and when needed, including reducing the OCR even further.
- Through 2019 the RBNZ consulted on a requirement for banks to increase the capital they hold, from 10.5% to 18% for the large four banks. This was intended to be implemented on 1 July 2020, however has now been deferred 12 months due to the economic impact of COVID-19.
- The 90-day Bank Bill Benchmark Rate (BKBM) was 0.31% as at 15 July 2020. This has reduced significantly from 2019 where it averaged 1.52%.
- The unemployment rate is 4.2% as at March 2020, which is a 0.2% increase from Q4 2019. Unemployment is forecast to increase significantly due to the effects of the Covid-19 pandemic.
- The REINZ median house price across New Zealand increased by 9.2% in June 2020 to $639,000, up from $585,000 in June 2019, and up from $620,000 (3.1%) in May 2020.
- In terms of the construction sector, private backed development and construction is expected to be muted in the short term, however the Government has announced their intention to fast track infrastructure spend as one method to kickstart the economy post the COVID-19 shutdown.

In response to the Novel Coronavirus (COVID-19), on June 8 the NZ Government announced that NZ will move out of Alert Level 2, into Alert Level 1 commencing from midnight on June 8. At Alert Level 1, social and business restrictions will be lifted, however tight border controls remain in place. Although these constraints have now been lifted, the economic impact of these restrictions is likely to have long standing effects, notwithstanding significant monetary and fiscal stimulus which has been implemented by the RBNZ and NZ Government to support New Zealanders and reduce the impact on the NZ economy. Key initiatives taken include the implementation of a $60 billion Large Scale Asset Purchase, a circa $17-$18 billion support package which is aimed at those sectors most affected by the impacts of the virus, a $6.25 billion Business Finance Guarantee Scheme for small to mid-sized enterprises (SME), along with a $20 million Tertiary Support Package, and $50 million Media Support Package.

In addition to the above, as per the Government's 2020 Budget announcement on May 14, further key initiatives taken in response to COVID-19 include a $50 billion Response and Recovery fund, along with a $4 billion Business Support Package.

At this stage it is too early to forecast the full impacts on the economy and property market, however it is clear the measures taken and support packages provided are significant. The full effects of COVID-19 are yet to be fully understood and quantified, though the global economic disruption caused by the pandemic is expected to persist and lead to lower economic growth both in New Zealand and abroad.

4.2 Childcare Centre Summary

There has been an expansion in the demand and level of services and care for early childhood care and education throughout New Zealand, reflecting not only the Government's focus on the value of early childhood education, but also the demand from parents for early childhood care and education.

The Early Childhood Education Services is a non-compulsory education and care service available for children aged from 0 – 5 years old, with this service defined by the Education Act 1989 as being "premises used (exclusively, mainly or regularly), for the education or care of three or more children (not being children of the persons providing the educational care) under six, and furthermore by the day or part of the day but not for any continuous period of more than seven days.

Should the above service meet these criteria, it must be licensed under the Education (Early Childhood Centres) Regulations 2008, unless specifically exempted from this requirement by the Ministry of Education.

The main types of childcare centres are education and care centres, with these providing sessional, all day, or flexible hour programmes for children from birth to school age. These may be privately owned, non-profit making or operated as an adjunct to the main purpose of a business or organisation. The majority of the privately owned Early Childhood Education Centres fall within this category.

There are also home based services and play centres, however childcare centres are education and care centres generally make up the majority. These include kindergartens which is an Early Childhood Education institution which provides sessional programmes for mainly three and four year old children, with these being generally a mixture of privately owned and also community based centres.

There is also the Te Kōhanga Reo which is an Early Childhood institution administered by the Te Kōhanga Reo Trust. The programmes are based on the total immersion of children from birth to school age in Maori language, cultural and values.

The Government (Ministry of Education) has undertaken a major review of early childhood education with the result being a 10 year Strategic Plan, with the three main goals being increased participation and quality of Early Childhood Education services, improved quality of Early Childhood Education services and the promotion of collaborative relationships. The Strategic Plan and funding is also tied in with the focus on qualified staff with the funding rates which are in bands, depending on the ratio of qualified staff to children, reflecting the Government's strategy/focus.

In terms of licensing, before childcare centres can operate they must first obtain a licence issued by the Ministry of Education, in accordance with the Education (Early Childhood Centres) Regulations 2008, which sets out the minimum standards for safety, management and staffing standards. The previous maximum licensed number was 50, depending on age, however centres can operate under essentially an "open licence" number subject to meeting various criteria. These licences can be either full or probationary with the staffing directly related to the age and number of children. The Ministry of Education statistics on the early childhood centre indicate that there has been a steady increase, particularly in the number of Early Childhood Education Centres over the preceding 18 year period, with the largest increase in education and care centres followed by home based networks.

In terms of the revenue achieved by the operation of an Early Childhood Education Centre, this is generally from two main sources being the Government funding from the Ministry of Education which pays a subsidy to childcare centres dependant on occupancy, and the quality of teacher services provided, generally up to a maximum of six hours per day, five days a week, with the additional subsidy being the Government initiated provision of 20 hours free ECE for 3 and 4 year olds.

The other main revenue source is private fees obtained from parents/caregivers. In general, the private fees obtained from parents on a weekly basis can range from between $125 per week including GST to $380 per week, with these amounts dependant on the socio-economic location and the type and quality of services provided by the centre.

The advent of the 20 hours free early childhood education has also no doubt had an impact on some businesses/operations, this being available for children aged 3 or 4 years of age (or 5 years old but receiving special education support in early childhood education as part of a formal "transition to school plan").

Key Highlights outlined within the Annual ECE Census Summary Report 2019 are as follows:-

Attendance

- *Overall attendance at licensed ECE services have fallen from 200,588 attendances in last year's Census 2018 to 198,923 attendances in 2019.*
- *63.9% of New Zealand children aged 0-4 years attended a licensed ECE service in the census week.*
- *Younger children (under the age of 1) are less likely to attend ECE, and older children more likely; 95% of children aged 4 years attended ECE during the census week.*
- *Education and care services accounted for 68% of attendances in 2018. The number of children attending education & care services increased to 135,237 children in 2019 (up 0.4% from 2018). All other services saw a slight decrease in the number of children enrolled.*
- *The Tasman and Manawatu-Wanganui regions were the only regions to see an increase in attendance between 2018 and 2019. Attendances in the Tasman region increased by 2.0% and in the Manawatu-Wanganui region by 1.2%.*
- *The biggest decreases in attendance were in the West Coast, Nelson and Gisborne regions. Attendances in the West Coast region decreased by 5.2% between 2018 and 2019, in the Nelson region by 4.2% and in the Gisborne region by 4.1%.*

Services

- *The total number of licensed Early Childhood Education services increased from 4,568 in 2018 to 4,653 in 2019.*
- *The Auckland, Waikato, Marlborough and Otago regions saw the greatest increase in the number of ECE services between 2018 and 2019. The Gisborne, Tasman and West Coast regions saw the largest decreases in the number of ECE services.*
- *The average occupancy rate for playcentres across New Zealand was 48.0% during the 2019 ECE Census week, meaning that they were operating at under half of their licensed child places. The average occupancy rate for kindergartens was 82.3%, and for education & care services it was 78.8%. On average, these services were operating with around 20% of their licensed places still available.*

- *Adult-child ratios were slightly lower in 2019 than in 2018. There was a national average of 5.6 children per adult during each service's busiest time during the 2019 ECE Census week, down from a national average of 5.7 in 2018.*
- *Adult-child ratios are higher for services that only have children aged 2 years old and over (6.8 children per adult on average), and lower for those services that only have children aged less than 2 years old (2.9 children per adult on average). These ratios are consistent with regulatory requirements.*

Teaching Staff

- *The overall number of teaching staff at licensed ECE services increased between 2018 and 2019, while the proportion of qualified to not-qualified staff decreased very slightly.*
- *The overall increase in the number of teaching staff was caused by increased numbers of teaching staff at education & care services. There was an increase of 3% (842 individuals) at education & care services between 2018 and 2019 to 27,199 teachers. The overall number of education & care services also increased by 3%.*
- *Both kindergartens and home-based services saw decreases in the number of teaching staff employed between 2018 and 2019 – the number of kindergarten teachers decreased by 5% (194 teachers) and home-based coordinators by 1% (10 coordinators).*
- *65% of teaching staff identified as European/Pākehā in 2019, with 16% identifying as Asian, 8% as Māori, 7% as Pacific, and 4% either identified as other ethnicities or did not state their ethnicity.*
- *The number of qualified teaching staff at licensed services continued to increase, and the proportion of qualified to non-qualified staff remained largely the same between 2018 and 2019. The number of qualified teaching staff increased from 21,467 in 2018 to 21,767 in 2019.*
- *100% of home-based coordinators were qualified in 2019, meeting our regulatory requirements. 94.0% of kindergarten, 63.1% of education & care, and 81.5% of teaching staff at other service types were qualified in 2019.*
- *The number of all-day, teacher-led, centre-based services where over 80% of their teaching staff are qualified increased from 2018 to 2019. Out of the 3,342 all-day, teacher-led, centre-based licensed ECE services in 2019, 96% of services (3,208 services) had a teaching staff qualification rate of over 80%. This means these services were expected to have met the requirements for the "80%+ funding band" and were therefore paid a higher hourly rate.*
- *In 2019, 99.8% of all-day teacher-led kindergartens met the requirements for the 80%+ funding band, as did 95.6% of all-day teacher-led education & care services.*

5 Competition and Demographic Trends

5.1 Competition

The subject childcare facility is to be located within a new subdivision on the outskirts of Blenheim. The nearest preschool facility is located on the Omaka Marae at the Woodburn Airbase and there are a number of other childcare providers within Blenheim itself.

The following image identifies the location of childcare facility providers within Blenheim.

Source: Google Maps

The above image also identifies the approximate location of the subject facility.

The nearby Te Kupenga Preschool is located near the Woodburn Aerodrome and caters for 40 children and is located on the grounds of the Omaka Marae, 5 minutes from Blenheim.

ABC Springlands is a modern facility catering for 79 children while Moreporks Preschool located within Blenheim is also a new facility licenced for 60 children including 20 under 2's. This facility has an 80% plus registered teacher ratio.

Active Explorers located on Redwood Street, Blenheim is also a new facility licenced for 83 children including up to 31 under 2's.

The balance of the childcare facilities in Blenheim are generally converted dwellings and catering for fewer children than the 80 licenced children at the subject.

6 Leasing Evidence

6.1 Childcare Leasing Evidence

We have previously prepared a full report for the property which complies with Valuation Standards. Due to the purpose of this valuation, the fact that content is likely to be readily available on the Companies Office website and potential breaches of confidentiality, this report has been provided in an abbreviated format.

In assessing a market rental profile for the centre we have had regard to recent evidence throughout New Zealand. We have had particular regard to the evidence detailed below:

Centre	Effective Date	Licence
Pinecrest Drive, Gulf Harbour	Pre-com	105
Nga Wai Lane, Red Beach	Pre-com	120
Kindergarten NZ, Pukekohe	Pre-com	105
455 Taupaki Road, Kumeu	Apr-20	120
10 Surrey Street, Tawa, Wellington	Sep-19	86
325 Dunns Crossing Road, Rolleston	Apr-19	130
25 Spitfire Drive, Blenheim - Subject	*Apr-19*	*80*
173 Bill Richardson Drive, Invercargill	Mid 2019	90
431 Wairaeki Road, Christchurch	Late 2018	64
441 Nayland Road, Nelson	Mid 2018	60
306 Beach Road, Kaiapoi,	Mid 2018	68
Peria Road, Matamata	Mid 2018	95
Kindergarten NZ, Pokeno	Mid 2018	115
Evolve, Sala Street, Rotorua	Early 2018	50
271 Tweed Street, Invercargill	Late 2017	75
109 Northwood Boulevard, Christchurch	Late 2017	78
96 Trafalgar Street, Christchurch	Late 2017	48
8-10 Johns Road, Rangiora	Mid 2017	75
80-82 Peter Street, Ashburton	Early 2017	75

This evidence indicates levels of well presented, modern and well positioned centres in mixed use locations generally range from $40 per child per week to $45 per child per week. There are exceptions however where the higher rates are generally applied to modern purpose built facilities with a very high level of presentation, generally within stand-alone buildings with good exposure and convenient car parking and drop off areas. In some cases, higher rentals are achieved in areas with high underlying land values.

Anecdotally we note we are aware that a number of Auckland located facilities are achieving rentals above $50 per week per child, while the new facility at 325 Dunns Crossing Road in Rolleston is achieving a rental in the low – mid $40 per child per week range.

Given the body of evidence, we are of the opinion the subject property, given its location, quality, size, and catchment area that the market rental would fall within the narrower range of $47.50 - $52.50 per child per week. To that end we would adopt the current rent of $50 per week per child as market rent.

6.2 Net Income Assessment

The table below presents both the passing income and adopted market net income profile of the Property:

Passing Versus Market Comparison	Passing per annum	Market per annum
Rental Analysis		
Lettable Area Rental	$208,000	$208,000
Outgoings Recovery	$19,778	$19,778
Gross Income	$227,778	$227,778
Outgoings	$19,778	$19,778
Net Income	$208,000	$208,000

7 Sales Evidence

7.1 Sales Transaction

We have previously prepared a full report for the property which complies with Valuation Standards. Due to the purpose of this valuation, the fact that content is likely to be readily available on the Companies Office website and potential breaches of confidentiality, this report has been provided in an abbreviated format.

The land and building sales outlined below are for a number of Childcare facilities which have sold predominately within the South Island but with a number occurring in the Auckland area as well. We summarise these sales below:

Address	Date
406 Rosedale Road, Albany	Jul-20
58 Ormiston Road, Ormiston	May-20
19 Kahu Crescent, Hamilton	Mar-20
21 Park Hill Road, Birkenhead	Mar-20
51 Eban Avenue, Hillcrest	Mar-20
325 Dunns Crossing Road, Rolleston	Jan-20
52A Langdons Road, Christchurch	Jul-19
90 McFaddens Road, Christchurch	Jul-19
8 Killarney Street, Christchurch	May-19
441 Nayland Road, Nelson	Dec-18
431 Wairakei Road, Christchurch	Oct-18
154 Infinity Drive, Pegasus	Sep-18
306 Beach Road, Kaiapoi	Jul-18
428 Albany Highway, Albany	Jun-18
4 Browns Bay Road, Manurewa	Jun-18
271 Tweed Street, Invercargill	May-18
6 Peria Road, Matamata	Jul-18
6/85 Ben Lomond Crescent, Pakuranga	Jul-18
21 Sala Street, Rotorua	May-18

As can be seen from the sales outlined above, the purpose-built and adapted centres that are subject to arm's length leases at favourable terms achieve strong initial yields, even for COVID influenced sales that have occurred in recent times.

We have seen childcare centres become a popular investment class since 2015 with yields compressing as competition increases for childcare centres with long lease terms remaining and with built in rental growth.

7.2 Yield Consideration

As can be seen from the amount of transactional evidence above, the investment market for this asset class has shown strong demand in recent times, with both childcare centres and block retail assets transacting frequently at favourable yields. Properties that sit within the medium value quantum range generally provide an attractive investment to family trusts and are tightly held by investors with a limited amount of stock on the market. Yields within this price range generally range between 5.25% and 6.25%.

In terms of childcare sales, the facility at 325 Dunns Crossing Road, Rolleston comprises a newly opened facility licenced for 130 children occupied on a 10 year net lease term with fixed annual rent increases and market review at 5 years. It occupies a substantial corner site with the building comprising some 680 square metres in area. In addition, there are 35 on-site carparks, and an extensively developed park like playground area. This asset is considered a good comparison to the subject, albeit slightly superior.

The **154 Infinity Drive** sale is located within a developing subdivision and we note some consistency with the subject and also the more recent sale in Rolleston of 325 Dunns Crossing Road.

We believe tenant covenants will remain a key consideration for investors. The lease term of over 13 years will help to underpin the value, with investors likely to be attracted to these type of assets that provide greater security. Discounts may be provided for slightly inferior locations and where expiries are approaching.

When considering the yield profile of the subject, we have had regard to the following:

- New build nature of the improvements
- The WALT is very favourable
- Specialised asset
- Level of competition in the wider area
- The contract rent is considered to be at market levels
- Fixed rental growth with market review at year 5

It is our opinion that the subject property would attract a yield towards the mid-point of the equivalent yield range in the order of 6.00%.

Based on the sales evidence, we have adopted the following valuation inputs:

Valuation Input	
Capitalisation Rate	6.00%
Discount Rate	7.50%

8 Valuation Considerations

8.1 SWOT Analysis

The strengths and weaknesses of any investment property generally show the positive and negative characteristics of that property, whereas opportunities and threats represent future external factors or events that could enhance or diminish the value of the asset. We set out our SWOT analysis as inspected as follows:

Strengths	Weaknesses
▪ The introduction of the Government funded “20 free hours” scheme for 3 and 4 year olds ▪ A fast growing residential area of Blenheim ▪ Long term lease with built in rental increases ▪ Barriers to entry are reasonably high due to the resource consent process, relatively high construction costs, licensing requirements and industry wide qualified staffing shortages ▪ The centre will have limited capital expenditure requirements over the short to medium term ▪ Reasonably sized centre licensed for 80 children	▪ Level of competition within the wider area ▪ Continued difficulty in the industry in attracting qualified staff and the possibility that some centres may be forced to reduce role numbers if the required qualified teacher to child ratio is not maintained
Opportunities	**Threats**
▪ Aggressive price competition to gain market share and the initial build up period ▪ To provide a well presented purpose built modern centre to help gain market share ▪ Increase license numbers to make the contract rent more affordable on a per child basis	▪ The impact of the COVID-19 Coronavirus on the global economy and local property market is yet to be quantified. ▪ Limited funding increases ▪ Government policy changes to the ECE Sector ▪ Impact of any new competition on occupancy levels ▪ Any change in interest rates is likely to impact yields ▪ Limited alternative use for the improvements ▪ Increases in construction costs could limit feasibility

8.2 Likely Selling Period

We are of the opinion that the likely selling period for the Property is up to 6 months, assuming that the property is presented to the market in accordance with the specific assumptions noted in this report, and with an appropriate level of marketing. The actual time to sell the property may vary depending on the number of potential buyers in the marketplace, availability of comparable properties, access to finance, and changes in market conditions subsequent to the valuation date.

8.3 Most Probable Purchaser

In consideration of the current market, we anticipate the most probable purchaser of the Property to be a private investor, property fund or childcare operator.

9 Valuation Rationale

9.1 Valuation Overview

In arriving at our opinion of market value we have had consideration to the capitalisation and discounted cashflow (DCF) approaches to valuation, along with a cross check via the market comparison approach.

9.2 Capitalisation Approach

The capitalisation approach involves the determination of a sustainable net income from the property, and the application of a capitalisation rate as a measure of expected return from the property. Adjustments are made to the core value for items such as under/over renting, required capital expenditure or current/upcoming vacancy.

We have adopted a core capitalisation rate of 6.00%, with our calculations summarised below:

Direct Capitalisation Approach		
Rental Income	Contract Income	Market Income
Lettable Area Rental	$208,000	$208,000
Ideal Outgoings Recovery (Full Net Leases)	$19,778	$19,778
Total Rental Income	$227,778	$227,778
Less Outgoings Expenditure	($19,778)	($19,778)
Net Rental Income	$208,000	$208,000
Core Income Capitalised at 6.00%	$3,466,667	$3,466,667
Total Value Adjustments	$0	$0
Total Capitalised Value	$3,466,667	$3,466,667
Adopted Capitalised Value (say)	$3,470,000	$3,470,000

From our core value, present value adjustments (for rental reversions, letting up allowances, incentives, future lease agreements and short term CAPEX) where appropriate have been made in order to derive the resultant capitalised value.

Our adopted adjustments are detailed as follows:

Capital Deductions

We have not allowed for CAPEX allowances over the next 24 months from the valuation date, given the new nature of the facility.

Calculation Summary

Having made these adjustments to the core value, we derive a total value of $3,470,000. A sensitivity analysis based on adjustments to our adopted Core Capitalisation rate is as displayed below:

Sensitivity Analysis		Contract Approach	Market Approach
(0.25%)	5.75%	$3,620,000	$3,620,000
Adopted Capitalisation Rate	6.00%	$3,470,000	$3,470,000
0.25%	6.25%	$3,330,000	$3,330,000

9.3 Discounted Cash Flow Approach

We have undertaken a discounted cash flow analysis over a 10-year investment horizon to derive a net present value for the Property.

We note that a DCF analysis looks to forecast cashflow performance from the property over a future horizon based on an understanding and due diligence related to the property and the specific market in which it sits. The adopted forecasts incorporate what we consider reasonably foreseeable as at the valuation date in terms of key lease events, capital expenditure and likely growth in rental rates, costs and changes in property values over the cashflow term. We note that the actual cashflows associated with the property may vary significantly depending on management decisions, market conditions or unforeseeable events.

Discount Rate

In assessing an appropriate target discount rate for the property, we have considered primarily the analysis of recent comparable or benchmark property sales, the current level of risk free return, discussions with active property investors as well as consideration of the property's specific investment attributes.

We have applied a target discount rate of 7.50% to the cash flows to produce a present value of $3,580,000. Our DCF calculations are summarised overleaf:

Discounted Cashflow Summary		Year Ending	28-Jul-2021	28-Jul-2022	28-Jul-2023	28-Jul-2024	28-Jul-2025	28-Jul-2026	28-Jul-2027	28-Jul-2028	28-Jul-2029	28-Jul-2030	28-Jul-2031
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Rental Income													
Lettable Area and Car Park Income			$209,248	$213,438	$218,705	$222,463	$224,688	$231,429	$238,371	$245,523	$250,384	$252,888	$0
Outgoings Recovery			$19,778	$20,134	$20,617	$21,153	$21,788	$22,441	$23,114	$23,808	$24,522	$25,258	$0
Other Income			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Gross Rental Income			$229,026	$233,572	$239,322	$243,616	$246,476	$253,870	$261,486	$269,330	$274,907	$278,146	$0
Rental Deductions													
Unexpired Incentives - Rent Free/Abatements			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Outgoings Expenditure			($19,778)	($20,134)	($20,617)	($21,153)	($21,788)	($22,441)	($23,114)	($23,808)	($24,522)	($25,258)	$0
Ground Rental													
Net Rental Cashflow			$209,248	$213,438	$218,705	$222,463	$224,688	$231,429	$238,371	$245,523	$250,384	$252,888	$0
Rental Adjustments													
Unexpired Incentives - Capital Contribution			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Letting Up Allowances - Leasing Fees			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Capital Expenditure			$0	$0	$0	$0	$0	($3,506)	($3,611)	($3,720)	($3,831)	($3,946)	$0
Net Cashflow			$209,248	$213,438	$218,705	$222,463	$224,688	$227,922	$234,760	$241,803	$246,553	$248,942	$0
Purchase Price	$3,525,000	After Costs	($3,525,000)										
Sale Price	$4,110,000	After Costs											$4,048,350
Annual Cashflow			($3,315,752)	$213,438	$218,705	$222,463	$224,688	$227,922	$234,760	$241,803	$246,553	$248,942	$4,048,350
Present Value of Rental Cashflow		$1,614,732											
Present Value of Terminal Value		$1,964,235											
Allowance for Acquisition Costs		$0											
Total Net Present Value (say)		$3,580,000		Resulting IRR	7.71%								

The main valuation inputs used in our cash flow are summarised as follows:

Revenue Projections

Our revenue projections commence with the passing rents for each existing tenant and, where relevant, include structured annual and market rent reviews, together with ratchet clauses, as provided for under existing leases.

Growth Rates

A summary of the growth rates adopted for the cash flow period are as follows:

Growth	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Childcare							10 year average		2.12%	
	0.50%	1.00%	2.25%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
CPI							10 year average		1.78%	
	0.80%	1.40%	1.60%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Capex							10 year average		2.78%	
	1.80%	2.40%	2.60%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Outgoings							10 year average		2.78%	
	1.80%	2.40%	2.60%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

The market rents have been grown over the 10-year cash flow period by their respective growth rate as set out within the summary table above. In formulating our views as to the appropriate projected rental growth rates we have had regard to forecasts supplied by JLL Research and NZIER. These forecasts have been used as a base from which growth rates appropriate for the Property have been derived.

Capital Expenditure

Within our calculations we have made our own allowances relating to modest building capital expenditure requirements commencing in Year 6 that we feel would be necessary to maintain the premises. The allowances we have made are as summarised below:

Cash Flow Year	Tenancy Capex	Building Capex	Total Capex
Year 1	$0	$0	$0
Year 2	$0	$0	$0
Year 3	$0	$0	$0
Year 4	$0	$0	$0
Year 5	$0	$0	$0
Year 6	$0	$3,506	$3,506
Year 7	$0	$3,611	$3,611
Year 8	$0	$3,720	$3,720
Year 9	$0	$3,831	$3,831
Year 10	$0	$3,946	$3,946
10 Year Total	$0	$18,615	$18,615
Capex as a proportion of Value	0.5%	Per Sqm of Lettable Area	$41.37

The above allowances have been adjusted for forecast CPI movements throughout the cash flow.

Estimated Terminal Sale Price

We have applied a terminal yield of 6.25% (a 25.0 basis point premium to the going in capitalisation rate) to the market net income at the start of Year 11 in order to calculate the estimated terminal sale price. This value also includes reversions to the forecast market rent as at the end of Year 10, deferred until the next review date.

In estimating the terminal value of the property we have primarily had regard to the increased age of the property at the end of the cashflow and likely occupancy and net income profile for the property.

Transaction Costs

We have made allowances for the following transaction costs within our discounted cash flow:

Transaction Costs	
Acquisition Costs	Nil
Disposal Costs	1.50% of the forecast Terminal Value

Sensitivity Analysis

The table below highlights a sensitivity analysis of the net present value around variations to the discount rate and terminal yield:

Discount Rate		Terminal Yield	
	6.000%	6.250%	6.500%
7.250%	$3,730,000	$3,640,000	$3,570,000
7.500%	$3,660,000	$3,580,000	$3,510,000
7.750%	$3,600,000	$3,520,000	$3,450,000

10 Valuation

10.1 Valuation Reconciliation

The results of our valuation methods are:

Methodology	Valuation
Capitalisation Approach - Market Income	$3,470,000
Capitalisation Approach - Contract Income	$3,470,000
Discounted Cash Flow Approach	$3,580,000
Adopted Value	$3,525,000

10.2 Valuation Conclusion

Our valuation is subject to the comments, qualifications and financial data contained within our report. On that basis, and assuming the Property is free of encumbrances, restrictions or other impediments of an onerous nature that would affect value, in our opinion its market value as at 29 July 2020, is:

$3,525,000 plus GST (if any)

Three Million Five Hundred Twenty Five Thousand Dollars plus GST (if any)

The assessed value reflects an initial passing yield of 5.90%, an equivalent yield of 5.90%, an internal rate of return of 7.71%, and a rate of $7,833 per square metre of Lettable Area.

We confirm that this report is confidential to the following parties and for the specific purposes noted below:

- PMG Direct Childcare Fund Trustees Limited c/- Property Managers Group – for Capital Raising

No responsibility is accepted to any third parties. Neither the whole of the report, or any part of it, or any reference to it, may be published in any document, statement or circular nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

10.3 Involvement Statement

The following parties have been involved in the completion of this valuation:

Inspection of Property	Tim Dick
Calculations	Tim Dick, Rachel Oatham
Information Review	Tim Dick
Report Authoring	Tim Dick, Rachel Oatham
Quality Assurance	Liam Rooney
Principal Valuer	Tim Dick

JLL require that all Valuation Reports are reviewed for Quality Assurance purposes before external release. The individual that has undertaken the Quality Assurance review offers no opinion on the subject property(s).

Yours faithfully,
Jones Lang LaSalle, Valuation Advisory

Tim Dick FNZIV, FPINZ, MRICS
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Appendix 1 – Valuation Definitions

Net Passing Income	The annual sum of the current base rent, any supplementary income and recoverable outgoings, less total outgoings.
Net Income, Fully Leased	The annual net passing income as above, plus estimated income from vacant tenancies and any immediate reversions.
Capitalisation Rate	The capitalisation rate adopted within the valuation applied to either the net income, fully leased (excluding supplementary income) or net market income prior to adjustments for vacancy, rental reversion and capital expenditure.
Initial Yield	The net passing income from an investment divided by the sale price or value adopted for the investment.
Market Yield	The assessed net market income divided by the sale price or value adopted.
Equivalent Yield	A market yield which reflects additional adjustments for capital expenditure, letting up assumptions or the present value of rental reversions after the capitalisation of income.
Discount Rate	A rate of return used to convert a future monetary sum or cash flow into a present value.
Internal Rate of Return (IRR)	The discount rate at which the present value of the future cash flows of the investment equals the acquisition cost of the investment.
Terminal Yield	Alternatively referred to as a Reversionary Yield, being the anticipated yield from an investment property once a reversionary value is attained at the end of the cashflow with adjustments for vacancy allowances.
Ten Year IRR	The IRR (as above) for which the property would achieve based on the present value of all the net cashflows over a 10 year period given the assessed value.
Market Rent	The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Market Value	The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.
Highest and Best Use	The use of an asset that maximises its potential and that is physically possible, legally permissible and financially feasible.
Weighted Average Lease Term (WALT)	The weighted average lease term remaining to expire across the property or portfolio, it can be weighted by rental income or lettable area.
Fair Value	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Appendix 2 – Record of Title

RECORD OF TITLE
UNDER LAND TRANSFER ACT 2017
FREEHOLD
Search Copy

R.W. Muir
Registrar-General
of Land

Identifier **799514**
Land Registration District **Marlborough**
Date Issued 26 March 2018

Prior References
779304

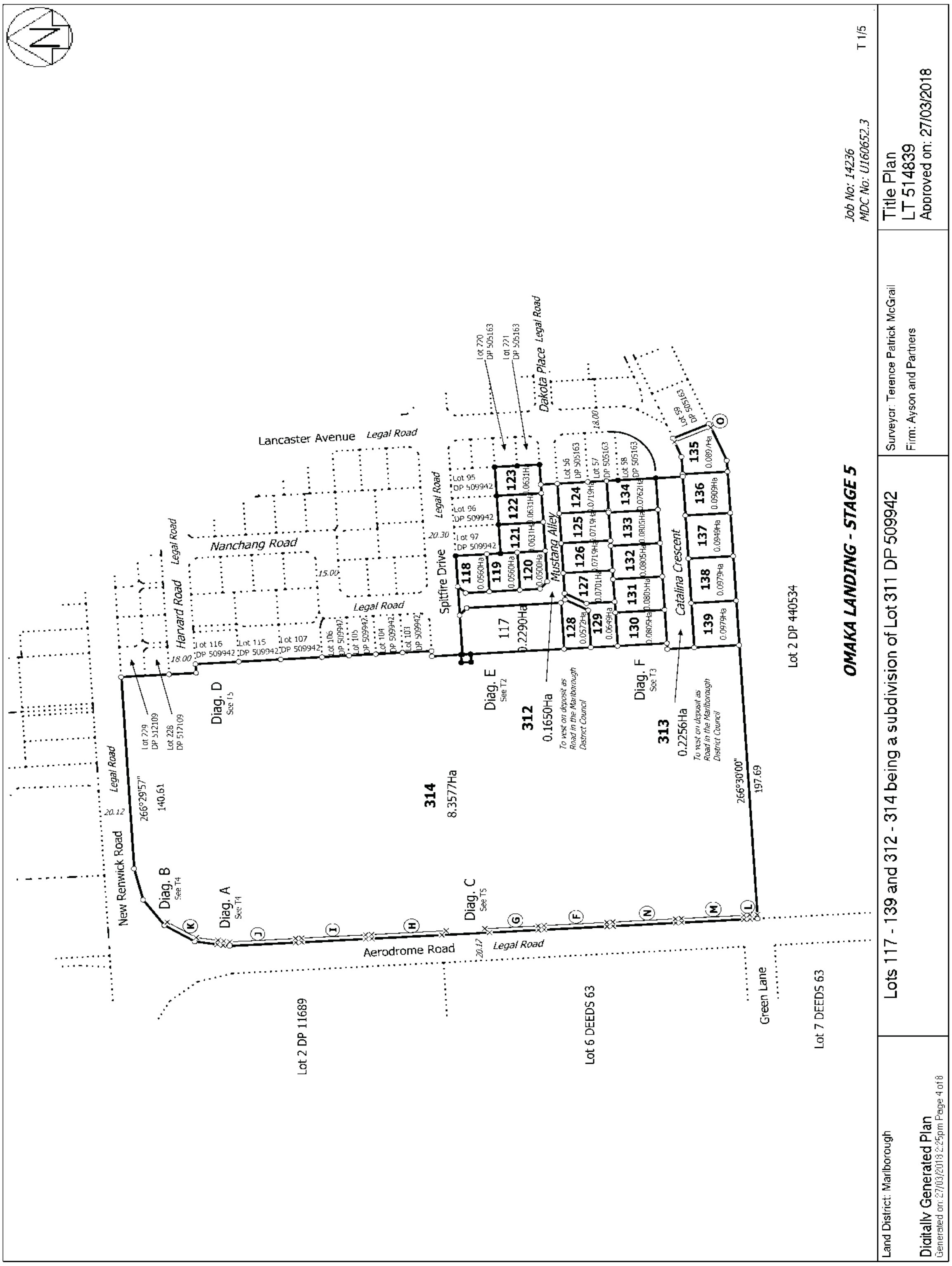
Estate Fee Simple
Area 2290 square metres more or less
Legal Description Lot 117 Deposited Plan 514839

Registered Owners
PMG Direct Childcare Fund Trustees Limited

Interests

Subject to Section 206 Land Act 1924
Land Covenant in Easement Instrument 10416367.3 - 8.8.2016 at 3:35 pm
Land Covenant in Easement Instrument 10416367.11 - 8.8.2016 at 3:35 pm (Limited as to duration)
Land Covenant in Easement Instrument 10615980.13 - 7.11.2016 at 10:45 am
Land Covenant in Easement Instrument 10832039.15 - 25.7.2017 at 12:09 pm
Land Covenant in Easement Instrument 10947608.1 - 8.11.2017 at 2:23 pm
Land Covenant in Easement Instrument 10920781.10 - 16.11.2017 at 4:57 pm
Land Covenant in Easement Instrument 10973121.5 - 1.12.2017 at 8:47 am
11037714.2 Consent Notice pursuant to Section 221 Resource Management Act 1991 - 26.3.2018 at 5:07 pm
Land Covenant in Easement Instrument 11037714.3 - 26.3.2018 at 5:07 pm
Land Covenant in Easement Instrument 11037714.4 - 26.3.2018 at 5:07 pm
Land Covenant in Easement Instrument 11037714.5 - 26.3.2018 at 5:07 pm
Land Covenant in Easement Instrument 11037714.6 - 26.3.2018 at 5:07 pm
Land Covenant in Easement Instrument 11037714.7 - 26.3.2018 at 5:07 pm
11037714.8 Encumbrance to Marlborough District Council - 26.3.2018 at 5:07 pm
11501156.1 Mortgage to ASB Bank Limited - 8.11.2019 at 12:34 pm

Identifier **799514**



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