



## MARKET VALUATION

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143 Durham Street  
Central Business District  
Tauranga City

<b>Client</b>	PMG Direct Office Fund
<b>Valuation date</b>	31 March 2020

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# 1.0 EXECUTIVE SUMMARY



## 143 Durham Street, Central Business District, Tauranga City 3110

This is a commercial zoned property of 1,649 square metres located within the Tauranga central business area. It is developed with a three level commercial office building configured with seven office tenancies over three levels. The building is currently undergoing refurbishment with two of the tenancies on the middle level already completed and the two tenancies on level 3, undergoing refurbishment at the date of valuation. In addition there is on site parking provided both to the front and rear of the property.

### PROPERTY DETAILS

Type of property	Office
Zoning	City Centre Zone
Year built	Completed in 1988
Land area	1,649m <sup>2</sup>
Rentable floor area	2,339.5m <sup>2</sup>
NBS rating	90%

### OCCUPANCY DETAILS

Number of tenants	7
Occupancy	85%
Net contract rent	\$413,245
Net market rent	\$536,930
WALT	4.0 years

### VALUATION

**\$7,600,000** plus GST (if any)

Yield on passing income	5.44%
Yield on market income	7.06%
Equivalent yield	6.55%
Resultant IRR	6.42%

#### Contract for sale

We are not aware of any sale and purchase agreement in place for the subject property.

#### Previous sale

There was a non bona fide sale in September 2016 for \$4,850,000.

#### Valuation uncertainty

The COVID-19 virus is currently having a major impact on the New Zealand economy. The current Level 4 'lockdown' has effectively frozen the property market. Due to the severe market disruption and lack of transactional data, a greater degree of uncertainty is attached to our valuation.

### INSTRUCTIONS

Instructed by	Frances Mitchell
Report prepared for	PMG Direct Office Fund
Purpose of valuation	Financial Reporting Purposes, Mortgage Security and Capital Raising
Basis of valuation	Market Value - with existing tenancies
Valuation date	31 March 2020
Report issue date	11 May 2020

*TelferYoung policy requires that reports cannot be reassigned for any purpose beyond 90 days from the date of valuation. This policy has been set to meet professional indemnity insurance requirements. It is a condition of this report that any valuation needing to be reassigned beyond 90 days may require re-inspection by the valuer with an update fee charged.*

### PREPARED BY

Cameron Forlong	B Prop Valuer
Paul Higson	B.Comm (VPM) ANZIV MPINZ Registered Valuer Director

*This report must be read in conjunction with TelferYoung (Tauranga) Limited's Statement of Limiting Conditions and Valuation Policy.*

## 2.0 RISK SUMMARY AND ASSUMPTIONS

### RISK ANALYSIS

#### Strengths and opportunities

- Well-presented building that is effectively new to the interior in the tenancies that have been refurbished.
- Most of the tenancies are of a size for which there is typically good demand e.g. around 300 m<sup>2</sup> or less. There is also a range of tenancy sizes and this provides some latitude with tenants.
- Relatively low vacancy in this location.
- Good seismic rating of 90% NBS.
- Strategic location in the same block as the new Waikato University Campus and close to other modern, high quality office properties.
- Until recently there has been good demand for investment properties in this price bracket.
- Some of the tenants are expected to have little or only a moderate impact in the post COVID19 era (NZ Fire Service, The Property Group, PMG Funds)
- Good provision of car parking.
- The multiple tenancies can help mitigate the risk of vacancies.
- Potential to add value and saleability by creating formal leases on the vacant tenancies.
- Further modernisation and redecoration could add value and enhance saleability.

#### Weaknesses and threats

- Low levels of pedestrian traffic mean there is only limited ability for future retail type uses on the ground floor.
- The building has a dated external appearance and given the original construction date is over 30 years ago, elevated levels of maintenance/capital item replacement may be expected over the medium to long term.
- A possible significant increase in the amount of vacant office space provided in the locality.
- We consider that the BONZ tenancy is likely to be moderately impacted and the Vision Consulting tenancy may be strongly impacted by the developing economic conditions post COVID-19. BONZ is a business consultancy firm and Vision Consulting provides education services to foreign students.

- Over the lockdown period we are advised that rental rebates of 50% have generally been offered to tenants and over the short term this will impact on rentals received.
- The NZ Fire Service tenancy has a right of renewal which can be exercised for the 3 year period from 1 June 2020. There is though a risk that this tenancy is not renewed. We have been provided with an unsigned letter from NZ Fire Service stating their wish to renew and if this can be confirmed and documented (i.e. in a Deed of Renewal) then this risk factor is remedied.
- The impact of Covid 19 (corona virus) on the economy is negative and this is likely to put the NZ economy into a recession in 2020. One of the outcomes has been a lowering in interest rate structures and this typically benefits property. However, this could be offset by a reduction in confidence, economic performance and outlook affecting prospective purchasers and also tenants of commercial property. There is still a great level of uncertainty as to how developments will play out over the course of 2020. Nonetheless, it represents an emerging downside risk that will need to be closely monitored.

#### Overall risk summary

The property is considered to have a low risk profile in comparison with other commercial properties in the locality.

Prior to the COVID-19 virus threat this sector of the market had been typified by reasonable demand by investors.

Since the Government's decision to place New Zealand under lockdown of minimum period of 4 weeks from 26 March 2020, the property market is effectively frozen. How the market reacts following this lockdown is unknown at present, and we must wait for market activity to consolidate to a level of measurable impact, if any.

Industrial properties are likely to be the least affected commercial property class, with offices moderately affected and retail the most affected.

This is a secondary asset with an average tenant profile. The rental income is likely to be moderately disrupted.

In summary, the risks associated with COVID-19 are expected to be relatively average in comparison to other commercial properties.

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## SIGNIFICANT ASSUMPTIONS AND SPECIAL ASSUMPTIONS

Significant Assumptions and Special Assumptions are those assumptions that are material to the valuation and could reasonably be expected to influence the decisions of the user.

Significant Assumptions are those where the assumed facts are consistent with, or could be consistent with those existing at the date of valuation. These are often the result of a limitation on the extent of the investigations or enquiries undertaken by the valuer.

Special Assumptions are those where the assumed facts differ from those existing at the date of valuation. These are often used to illustrate the effect of proposed changes on the value of the property.

Significant Assumptions and Special Assumptions made within this valuation are as follows:

- Due to the inaccessibility of several areas our report is conditional upon the interior of the property being as described in this report.

## 3.0 SCOPE OF WORK

### The valuer

The valuation has been undertaken by Cameron Forlong and Paul Higson who provide this objective and unbiased valuation. The valuers have no material connection with the instructing party or interest in the property and have the appropriate qualifications and experience to undertake the valuation.

### Our client

PMG Direct Office Fund.

Other than the client or addressee, the report may not be relied upon by any third party. We accept no liability to third parties. Written consent is required for any third party wishing to rely on this report. We reserve the right to withhold that consent, or to review the contents of the report if consent for third party use is sought.

### Other intended users

ASB Bank.

### Purpose of valuation

Market Value for Financial Reporting Purposes, Mortgage Security and Capital Raising.

### Asset valued

143 Durham Street, Central Business District, Tauranga City 3110.

### Basis of valuation

Market Value is defined in International Valuation Standards 2020 as:

*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 and where the parties had each acted knowledgeably, prudently and without compulsion.*

With New Zealand currently in COVID-19 Alert Level 4, the real estate market is effectively frozen. To form a pragmatic view of value during the lockdown period we have, by necessity, set aside the Level 4 status as a short-term aberration, in order for our concluded Value to meet the definition of Market Value.

The asset valuation has been assessed in accordance with the following standards and guidelines:

- New Zealand Equivalent to International Accounting Standard 40 – Investment Property (NZ IAS 40) issued by the Institute of Chartered Accountants of New Zealand;
- Australia and New Zealand Valuation & Property Standards operative as at 1 October 2009;
- The International Valuation Standards 2013 (IVS).

NZ IAS 40 requires measurement of the property to be reported at 'Fair Value' which is defined by the International Accounting Standards Board as:

'... 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.'

'Fair Value' is the amount for which an asset should be exchanged between knowledgeable, willing parties in an arm's length transaction. 'Fair Value' requires the consideration of 'market-based' evidence for the determination of the value where such evidence exists and can be used to reliably determine the value. The 'Fair Value' is assessed with reference to the 'highest and best use' being defined as 'the most probable use of an asset that is physically possible, appropriately justified, legally permissible, financially feasible and results in the highest value'.

IVS recommends the independent valuer reports the 'Market Value' of the asset. The definition of 'Fair Value' differs from that of 'Market Value' as it does not refer to marketing and market exposure whereas the Market Value definition adds '...after proper marketing...'

Our valuation has been established on the basis of 'Market Value' and 'Fair Value' being synonymous.

Market based evidence of rentals, land sales and developed property sales have been considered for the assessment of the asset valuation.

### Valuation currency

All dollars quoted in this report are NZD.

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### Important dates

Inspection date 23 March 2020  
Valuation date 31 March 2020

### Extent of investigations

We have carried out an inspection of exposed and readily accessible areas of the improvements. However, the valuer is not a building construction or structural expert and is therefore unable to certify the structural soundness of the improvements. Readers of this report should make their own enquiries.

This report has been prepared for valuation purposes only and is not a geotechnical or environmental survey. If any defect is found, including structural defects, this information could impact on the value of the property.

### Nature and source of information relied upon

Information used to prepare the valuation has been obtained from our property inspection and public records. Additional information relied on includes:

Name of Document	Source of Document
Lease documentation	PMG Funds
Tenancy schedule	PMG Funds
Operating expense schedule	PMG Funds

### Reporting format

We have prepared a formal valuation report meeting appropriate professional standards.

This report must be read in conjunction with TelferYoung (Tauranga) Limited's Statement of Limiting Conditions and Valuation Policy.

### Valuation standards

Our valuation has been prepared in accordance with International Valuation Standards 2020 and Australia and New Zealand Valuation Guidance Notes and Technical Information Papers.

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## 4.0 RECORD OF TITLE

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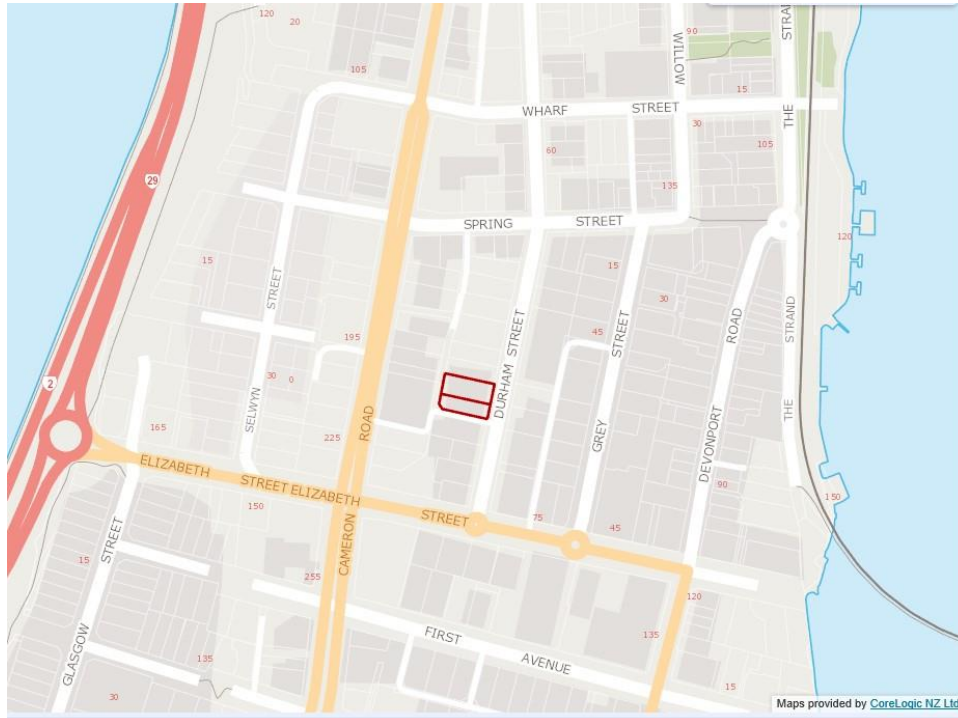
### 4.1 TITLE INFORMATION

<b>Identifier</b>	681802
<b>Land registration</b>	South Auckland
<b>Legal description</b>	Part Lot 17-18 Deposited Plan 17
<b>Estate</b>	Fee Simple
<b>Area</b>	1,649 m <sup>2</sup> (more or less)
<b>Registered owner</b>	PMG Direct Office Fund Trustees Limited
<b>Interests</b>	<ul style="list-style-type: none"><li>■ A Certificate pursuant to Section 643 (2) Local Government Act 1974. This relates to the construction of a building over two or more allotments.</li><li>■ A Mortgage to ASB Bank Limited</li></ul>
<b>Comments</b>	<p>The two lots covered by the notice subject to Section 643 (2) Local Government Act 1974 are already contained in one title so we consider that this notice has no effect on value.</p> <p>In completing our valuation we have disregarded the existing mortgage interest, with the property valued as if unencumbered by mortgage or other charge.</p>

See **Appendix A** for the Record of Title.

## 5.0 LOCATION

### 5.1 LOCATION DETAILS



#### Suburb

Central Business District

#### Location

**Appendix C** attached, along with the plan to the left shows the location of the property to the north-western side of Durham Street, within the Tauranga central business area.

The immediate area is one where commercial services and office accommodation predominate and it is away from the main retail centre - retail activities generally are limited to Willow Street, Devonport Road, Grey Street, lower Spring and Wharf Streets and The Strand. Although it is away from the main retail centre, it is nevertheless, conveniently situated within easy walking distance of the city NZ Post premises, trading banks, professional offices and other services.

#### Surrounds

Nearby amenities include Baycourt, a venue for conferences, shows and other cultural activities, the Tauranga City Council offices and two car parking buildings. The surrounding area has seen a large amount of new development in recent years. This includes the new Waikato University Campus (within 50 metres of the subject), the Trustpower building (also on Durham Street), the ANZ Building, the Game Changer building between Second and Third Avenues and a new car parking building. A major development currently under construction is the Farmers redevelopment at the corner of Devonport Road and Elizabeth Street. The property is approximately 300 metres from the Spring Street mall, which is the heart of the city centre. The Durham Street streetscape has recently undergone a major reconstruction. This involved extensive tree plantings, narrowing and raising the surface of the road and widening the footpaths. The subject is now on an attractive street which is much improved from the former look and feel of the streetscape.

## 6.0 LAND

### 6.1 SITE DESCRIPTION



<b>Area</b>	1649 m <sup>2</sup> (more or less)
<b>Shape</b>	This is a regular shaped site.
<b>Contour</b>	The natural contour of the land rises moderately from the road by approximately 3 metres. The land has however been excavated to have a flat contour over the building platform. The rear land is also more or less flat but lies above the main ground level.
<b>Services</b>	Durham Street has recently had a substantial upgrade costing over \$10 million. It now has paved and exposed aggregate paths, attractive streetscape landscaping, street furniture, bike

parks and street lighting. The street has been thinned to make it more pedestrian friendly and there are only a very limited number of on street car parks available. The rear service lane is sealed. All normal city services are available to the site

<b>Access</b>	There is excellent access to the site. Pedestrian Access is from Durham Street. Drive on access is available to the site from both Durham Street and the adjacent service lane to the southern boundary.
<b>Comments</b>	Good sun is received and the property has an outlook over the surrounding commercial area. There are 13 on grade car parks in front of the building including one disabled car park. To the rear of the property there are 12 car parks.
<b>Contamination</b>	We have not been provided with an environmental audit of the property and we are not aware of any potential environmental concerns. We refer you to our Statement of Limiting Conditions and Valuation Policy on matters relating to potential contamination. As part of our investigation we have made enquiry on the Bay of Plenty Regional Council HAIL register website. This website shows that the property is not identified as being on the Contamination Register/Hazardous Activities and Industries List (HAIL).

## 7.0 RESOURCE MANAGEMENT

### 7.1 ZONING INFORMATION

<b>Territorial authority</b>	Tauranga City
<b>Plan status</b>	Operative
<b>Zone</b>	City Centre Zone

#### Zone description

The purpose of the City Centre zone is to maintain and enhance the role and function of the city centre as the principal retail, commercial, civic, entertainment and cultural centre of the city and the Western Bay of Plenty sub-region. Zone provisions enable a wide range of land-use activities to establish within base environmental standards.

Permitted Activities and Development Controls within this Zone include the examples listed below.

#### Permitted activities

- Accessory buildings and activities
- Ancillary retail and offices
- Business activities other than offensive trades
- Community facilities
- Minor public recreational facilities
- Emergency services
- Places of assembly
- Residential activities
- Schools and tertiary education premises
- Visitor accommodation

#### Development controls

- There are no site specific site coverage controls
- There are no carparking controls in the City Centre Zone
- The city centre has zones of different permitted building heights. Most of the central CBD area has a maximum building height of 49 metres above the Moturiki Datum (the local average sea level), whilst fringe areas have maximum heights of 8 to 19 metres
- The subject is in the area with maximum building height of 49 metres above the Moturiki Datum. We have estimated the ground level of the subject property from

Council's GIS mapping to be approximately 10 metres above the Moturiki Datum at the front of the site (the ground floor level of the structure currently on the site).

#### Comments

We note that offices are permitted activities within this zone, though subject to certain conditions.

### 7.2 RATING VALUATION

As at 1 July 2018:

Address	Land Value	Improvements	Capital Value
143 Durham Street	\$3,020,000	\$2,580,000	\$5,600,000

Rating Valuations are conducted on a mass appraisal basis, generally once every three years, in order to provide a basis to assist territorial authorities to collect revenue through rates. Individual properties are not inspected on a regular basis and changes in the improvements may not be recorded. The rating values are expressed on a Freehold Estate basis, even when the property might be leasehold. In this instance the property is held in a series of proportionate titles. In this instance the property is held in a series of proportionate titles.

### 7.3 LAND INFORMATION MEMORANDUM

We have not been supplied with a Land Information Memorandum (LIM) relating to the property. Our report is subject to there being no outstanding requisitions or adverse information affecting this property. We reserve the right to amend our assessment should this not be the case.

## 8.0 IMPROVEMENTS

### 8.1 OVERVIEW

This is a three level, multi tenancy office building that was originally constructed in 1987/88. The building is divided into five smaller tenancies and two larger tenancies. Access to the middle and upper levels is via stairs from a small lobby to the ground floor and another one at the rear of the middle level.



See **Appendix B** for additional photographs.

*Our valuation has been prepared on the basis of the improvements being located within the site boundaries and constructed strictly in accordance with the recommended practices, and free from any defect; unless otherwise stated within this report.*

### 8.2 COMMERCIAL BUILDING

#### 8.2.1 Floor areas

The approximate floor areas are as follows:

	Gross floor area (m <sup>2</sup> )	Rentable area (m <sup>2</sup> )
Level 1 – ground floor:	1,032.4	
Level 2:	936.8	
Level 3:	405.0	
NZ Fire Service tenancy (Suites 1 & 2)		821.8
Vacant tenancy 1 (Suite 3)		143.0
BONZ (Suite 4)		310.2
PMG Funds (Suite 5)		342.5
Vision Consulting (Suite 6)		252.9
The Property Group (Suite 7)		163.6
Vacant tenancy 2 (Suite 8)		204.5

The floor areas are based on the ‘The Guide for the Measurement of Rentable Areas’ (revised June 2013) published jointly by the Property Council of New Zealand (PCNZ) and the Property Institute of New Zealand (PINZ), and also as summarised in Australia and New Zealand Real Property Guidance Notes (ANZRPNGN) 4 – Methods of Measurement.

With regards to the NZ Fire Service tenancy, we note that our as measured area of 821.8 m<sup>2</sup> is at odds with that stated in the lease of 813.1 m<sup>2</sup>. The lease states that the recorded floor area is approximate only. For the purposes of this valuation then we have analysed the lease on the basis of the “as measured” floor area for this tenancy.

### 8.2.2 Construction

<b>Foundation</b>	Concrete slab.
<b>Flooring</b>	Concrete.
<b>Exterior walls</b>	Texture coated fibre cement, tiles and window glazing. Many of the eaves have timber panelling to the underside.
<b>Framing</b>	Reinforced concrete columns and beams plus concrete blocks.
<b>Roofing</b>	Coloursteel.
<b>Joinery</b>	Powder coated aluminium.
<b>Internal linings</b>	Plaster board, timber panelling, some texture coated ceilings and suspended soft board.
<b>Ceilings</b>	Plasterboard and softboard. Some textured.

### 8.2.3 Layout and accommodation – Introduction

Given the recent escalation of Covid 19 alert levels, arranging access to the interior of each tenancy prior to the lockdown was not possible. Upon inspection, several of the spaces were already operating in lockdown with doors locked and no staff present. Additionally, the top level was a construction zone and access was not permitted to this level. We have therefore conducted an external inspection of the property and interior inspections of the available areas. Our description of the interior of each tenancy though is based on our discussions with the property owner, corroboration of what we could see from our inspection and our previous inspection records, with the last inspection being done on September 2019. Whilst this last inspection was comparatively very recent, there is nonetheless a risk that the interior of each tenancy is not as described here and we have made our valuation conditional on the property being as described in this report.

### 8.2.4 Layout and accommodation - Ground Floor (Level 1)

#### NZ Fire Service – Suites 1 and 2

This large tenancy has a U shape. It contains four partitioned offices, an open area to the front with double doors to the exterior, photocopier room and workroom. To the northern portion of the tenancy there are two meeting rooms with a retractable partition between

them. There is also a toilet room with three toilets, two hand basins, one vanity and a disabled access shower.

The rear area is known as the Region 2 Coordination Centre and has been described as the rear store. It consists mainly of a large open plan room with a three metre stud and double doors to a rear store. There is also a rear office. The main portion of this area does not have a lined ceiling.

The staff room is a large room with a laminate bench top and servery, stainless steel sinks (2), range hood, glass splashboard, hot water heater, two element hob, wall oven, pantry, under bench cupboard space and drawers and double doors to the exterior.

#### Vacant tenancy (to be ex The Property Group) – Suite 3

This area comprises three partitioned offices, two open plan areas and a store room. In addition this tenancy has the exclusive use of a ground floor toilet located off the ground floor entrance foyer.

#### Ground Floor Entrance Foyer

This is situated at the Durham Street entrance and contains floor tiles, stairs to upper levels, a door to the exterior and storage space.

### 8.2.5 Layout and accommodation – First Floor (Level 2)

#### BONZ – Suite 4

There is a reception area, a large open plan area, staffroom and several attractive partitioned offices. The space was substantially refurbished in recent years.

#### PMG Funds – Suite 5

This is the newly refurbished suites 5 and 7 which have been turned into one tenancy at the rear of the building which has meeting rooms in the entrance of the tenancy and opens out to open plan office area with a small kitchen to the rear of the tenancy. There is a high standard of finishes. This tenancy also has the paved level 2 patio area located adjacent to the north of the building.

#### Vision Consulting – Suite 6

There is with a door to the common passage. There is a reception area located to the rear of this tenancy which has double doors to the rear service lane area. A passage leads to

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several partitioned rooms plus open plan office areas. In addition there is a store room and small staff room area.

#### **Common Areas**

These comprise a stair landing, passage, rear entrance, two sets of toilets and a small staff room.

### **8.2.6 Layout and accommodation – Second Floor (Level 3)**

#### **Introduction**

This space is currently undergoing refurbishment which will turn three smaller tenancies into two larger more attractive suites.

#### **The Property Group New tenancy – Suite 7**

The fit out of this tenancy when complete will provide a reception area, an open plan area office, meeting room, board room and kitchen. The partitioned rooms will have part glass partitioning. The kitchen will have overhead and under bench cupboard space and drawers, a splash back, microwave shelf and dishwasher area. Access to the kitchen will be via double opening glass doors.

#### **Vacant tenancy 2 – Suite 8**

Double doors provide access from the common passage to a waiting room. The space will have three partitioned offices/meeting rooms, an open plan area and a kitchen. The kitchen will have similar fittings to that going in to Suite 7.

#### **Common Areas**

These comprise two stair landings (eastern and western ends), passage, two sets of toilets and a small staff room.

### **8.2.7 Lessor fitout/improvements**

The leases state that the floor coverings, most internal partitions, lighting and the air conditioning are owned by the landlord.

### **8.2.8 Building condition**

The overall presentation and condition of both the exterior and interior of the building is generally good and above average quality accommodation is provided. The building is however starting to show signs of its age in places. When originally constructed, the

building provided some of the best office accommodation available in Tauranga. However, recent office developments have led to a raising of the standard for what can be considered A grade office accommodation. Whilst still providing very good office accommodation, it is now in the middle portion of the available B grade office stock in Tauranga. Refurbishment in recent years to many of the spaces has helped to reposition the building to the upper end of B grade.

Upon our inspection of the property work was underway on the alterations to Suites 7 and 8. We are advised that as at 31 March 2020 the only work required to complete Suite 7 was the installation of a prefabricated wall and the laying of carpet tiles. For Suite 8 the space has only been stripped. We are advised that the costings for each suite were as follows:

- Suite 7 (The Property Group tenancy) - \$232,587
- Suite 8 (The vacant tenancy) - \$330,000

We consider that it will cost approximately \$300,000 to complete the works. For this valuation, we have assessed market rents as though the works are complete and deducted these costs to complete the refurbishment from the value.

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## **8.3 BUILDING WARRANT OF FITNESS (BWF)**

The Building Act 2004 requires that all buildings which include certain specified systems must have a Compliance Schedule and a Building Warrant of Fitness (BWF). The Act requires the various services and other facilities as set out in the Compliance Schedule to be inspected on a regular basis, and the Warrant of Fitness to be renewed annually.

A Building Warrant of Fitness has been issued for the subject property and this expires on 14 May 2020. It refers to Compliance Schedule No 1268.

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## **8.4 EARTHQUAKE CATEGORISATION**

The Building (Earthquake-prone Buildings) Amendment Act 2016 came into full effect as from 1 July 2017. Under the new legislation:

- The threshold for defining an earthquake-prone building remains, with amendments to clarify certain aspects (including that it applies to parts of buildings). In practice, an

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earthquake-prone building is often referred to as one that is less than 34% of the New Building Standard (NBS).

- New Zealand is to be categorised into areas of high, medium and low seismic risk (with timeframes for identifying potentially earthquake-prone buildings of 5, 10 and 15 years, and timeframes for strengthening earthquake-prone buildings of 15, 25 and 35 years, dependent on the seismic risk of the area).

Territorial Authorities are required to carry out an assessment of all buildings to identify if they might be earthquake prone. The territorial authority has 10 years to complete this and then notify owners who will then have 12 months to get an assessment from an engineer to either confirm that the building is or is not earthquake prone. After supplying this information to Council, Council have 5 years to confirm the earthquake prone status of the building and if confirmed as being earthquake prone the building will be placed on a national register. From this point the owner has the specified times to undertake the remedial repairs.

We have been provided with a copy of an IEP report dated May 2013 from Arnold and Johnstone Limited (Consulting Civil and Structural Engineers) that shows the building has a 90% NBS rating.

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## 8.5 ASBESTOS REGULATIONS

The Health and Safety at Work (Asbestos) Regulations 2016 came into effect on 4 April 2018. The regulations require workplaces to be surveyed for asbestos, and, an Asbestos Register and Asbestos Management Plan be prepared for buildings. A copy of the Asbestos Management Plan must be accessible on site. Where Asbestos is present it can be left undisturbed if there is no risk to people, or it can be encapsulated, isolated or removed. If left undisturbed, future refurbishment or demolition requires further survey and works planning (including safe removal of Asbestos by competent persons).

We have received the Asbestos Survey Report from PMG and note:

- There were no high risk materials present
- There were four parts of the building where asbestos containing materials have been presumed as being present, where access could not be gained. Due to this, these four areas are listed on the asbestos register.

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## 8.6 OTHER IMPROVEMENTS

Site development includes a sealed driveway and parking areas to the front and rear, retaining walls, steps, gates and low level landscaping. In practice, there are effectively 25 car parks available. 12 car parks are provided to the rear and 13 to the front.

Adjacent to the north of the PMG Funds tenants is a paved area of 93 m<sup>2</sup> which is associated with this tenancy and forms part of their rentable area.

## 9.0 OCCUPANCY DETAILS

### 9.1 INTRODUCTION

The property is subject to four active leases with one tenancy being vacant (known as Suite 8 and located to the top level). The remaining tenancy is known as Suite 7 and upon completion of landlord works will be the new Property Group tenancy. As at the date of valuation the status of this tenancy, as we understand it, is as follows:

- The Property Group have been occupying Suite 3 on a lease since 2009.
- An Agreement to Lease has been entered into which provides for the tenancing of Suite 7 to commence on 31 March 2020. The copy of the Agreement to Lease provided to us however is not signed by the Landlord (we understand this is due to lockdown restrictions). Our assessment is therefore conditional upon this being signed and a lease being fully executed.
- The lease of Suite 3 has expired, but the Agreement to Lease for Suite 7 states that the lease will be extended and will now expire on the date that is contemporaneous with the new premises rent commencement date.
- The rental commencement date however will be 7 calendar days from the Access Date.
- As far as we can tell from perusing the documentation provided to us, the term “Access Date” is not defined in the Agreement to Lease. The spirit of the documentation would indicate that this access date is though the “Date of Practical Completion of the Landlord’s Work” as defined in Section 25 of the Agreement to Lease.
- This tenancy of Suite 3 will continue for 5 working days after the Tenant’s soft fit out has commenced on Suite 7.
- Given all of the above the conclusion is that the lease to Suite 7 has commenced, but that the rent will not commence until after the completion of the works. We are advised that the works will be completed shortly after the lockdown ends and we have based our workings on the rental commencement in mid May.

The existing and proposed lease are all Auckland District Law Society (ADLS) Leases. They are all net leases (that is where the tenant pays a full share of the outgoings on top of the rental). We have identified a number of the tenancies as having a CPI based rent review basis. Please note that this refers to the change in the Consumer Price Index. Summaries of the main terms and conditions of each lease are given to the following pages.

*Unless otherwise stated in this report, our valuation is prepared on the basis that the rental income referred to in this report will be payable in full at all times by tenant(s) in accordance*

*with obligations under leases or agreements to lease. This includes the obligation to pay operating expenses. The Scope of Work does not extend to making any enquiries as to the financial position or covenant strength of a tenant. We are unable to provide specific comment on the impact which the COVID-19 events have had, or potentially will have, on a tenant’s ability to meet its financial obligations under its lease. Our broader observation of the nature and likely market perception of tenant ability to pay rent is included in the preceding Risk Analysis summary and at Section 12.5.2 of this report.*

### 9.2 LEASE SUMMARY

#### 9.2.1 NZ Fire Service – Suites 1 and 2

Tenant	NZ Fire Service Commission
The premises	Part of the Landlord's building known as suites 1 and 2 at 143 Durham Street, Tauranga, being the ground floor of approximately 813.1 square metres as shown on the attached plan. In addition the tenancy comes with five car parks.
Commencement date	1 June 2012
Current commencement	1 June 2017
Current term	Three years.
Remaining renewal terms	One of three years.
Current annual rent	\$101,249 per annum plus outgoings and GST
Rent reviews	Two yearly.
Rent review basis	CPI.
Ratchet clause	The rental on review shall not be less than the annual rent payable as at the commencement date of the then current lease term.
Business use	Office, administration, storage.

Outgoings	<p>Outgoings recoverable from the tenant include:</p> <ul style="list-style-type: none"> <li>■ Rates.</li> <li>■ Utility charges, rubbish and recycling collection charges.</li> <li>■ NZ Fire Service charges and maintenance charges in respect of all fire detection and fire fighting equipment.</li> <li>■ Building reinstatement insurance premiums and related valuation fees.</li> <li>■ Contract charges for building services.</li> <li>■ Maintenance of the premises and building services (but excluding responsibility for structural repairs).</li> <li>■ Provisioning of toilets.</li> <li>■ Grounds maintenance.</li> <li>■ Yard and car parking area maintenance.</li> <li>■ Costs of supplying an annual building warrant of fitness.</li> </ul> <p>Unrecovered outgoings include:</p> <ul style="list-style-type: none"> <li>■ Structural repair and maintenance.</li> </ul>	Rent review basis	Fixed increases of 2.75% per annum with a review to market on 1 December 2025
		Ratchet clause	For the market review the rental on review shall not be less than the annual rent payable as if a 2.75% fixed increase had been applied from the previous 12 month period.
		Business use	Commercial offices
		Outgoings	<p>Outgoings recoverable from the tenant include:</p> <ul style="list-style-type: none"> <li>■ Rates.</li> <li>■ Utility charges, rubbish and recycling collection charges.</li> <li>■ NZ Fire Service charges and maintenance charges in respect of all fire detection and fire fighting equipment.</li> <li>■ Building reinstatement insurance premiums and related valuation fees.</li> <li>■ Contract charges for building services.</li> <li>■ Maintenance of the premises and building services (but excluding responsibility for structural repairs).</li> <li>■ Provisioning of toilets.</li> <li>■ Grounds maintenance.</li> <li>■ Yard and car parking area maintenance.</li> <li>■ Management expenses.</li> <li>■ Costs of supplying an annual building warrant of fitness.</li> </ul> <p>Unrecovered outgoings include:</p> <ul style="list-style-type: none"> <li>■ Structural repairs and maintenance.</li> </ul>
Special conditions	Clause 49 of the lease details that the outgoings percentage for the property shall be 27.5%		

### 9.2.2 BONZ Limited – Suite 4

Tenant	BONZ Limited
The premises	Suite 4 on Level 1.
Commencement date	1 December 2019
Current commencement	1 December 2019
Current term	Six years.
Remaining renewal terms	One of four years.
Current annual rent	\$95,176 per annum plus outgoings and GST
Rent reviews	Annually

Special conditions Not Applicable

### 9.2.3 PMG Funds – Suite 5

Tenant	PMG Funds
The premises	Suites 5 and 7 on Level 1
Commencement date	1 December 2019

Current commencement	1 December 2019
Current term	Six years
Remaining renewal terms	One of six years
Current annual rent	\$110,147 per annum plus outgoings and GST
Rent reviews	Annually.
Rent review basis	CPI with market review every three years.
Ratchet clause	For the market reviews, the rental on review shall not be less than the annual rent payable under the CPI provisions.
Business use	Commercial offices
Outgoings	<p>Outgoings recoverable from the tenant include:</p> <ul style="list-style-type: none"> <li>■ Rates.</li> <li>■ Utility charges, rubbish and recycling collection charges.</li> <li>■ NZ Fire Service charges and maintenance charges in respect of all fire detection and fire fighting equipment.</li> <li>■ Building reinstatement insurance premiums and related valuation fees.</li> <li>■ Contract charges for building services.</li> <li>■ Maintenance of the premises and building services (but excluding responsibility for structural repairs).</li> <li>■ Provisioning of toilets.</li> <li>■ Grounds maintenance.</li> <li>■ Yard and car parking area maintenance.</li> <li>■ Management expenses.</li> <li>■ Costs of supplying an annual building warrant of fitness.</li> </ul> <p>Unrecovered outgoings include:</p> <ul style="list-style-type: none"> <li>■ Structural repairs and maintenance.</li> </ul>
Special conditions	Not Applicable

#### 9.2.4 Vision Consulting – Suite 6

Tenant	Vision Consulting NZ Limited
The premises	Suite 6, 143 Durham Street comprising an area of 252.86 m2 including a pro rata shower of the common areas and as highlighted on the lease plan. The lease states that there are 4 car parks with this tenancy, however, we understand that a 5 <sup>th</sup> car park has now been associated with this space.
Commencement date	31 March 2018
Current commencement	31 March 2018
Current term	Five years
Remaining renewal terms	One of two years
Current annual rent	\$54,579 per annum plus outgoings and GST including the fifth car park
Rent reviews	Two yearly
Rent review basis	Market
Ratchet clause	The rent on review shall not be less than the annual rental payable during the twelve month period immediately preceding the review date.
Business use	Immigration, language and schooling for Korean Students.
Outgoings	<p>Outgoings recoverable from the tenant include:</p> <ul style="list-style-type: none"> <li>■ Rates.</li> <li>■ Utility charges, rubbish and recycling collection charges.</li> <li>■ NZ Fire Service charges and maintenance charges in respect of all fire detection and fire fighting equipment.</li> <li>■ Building reinstatement insurance premiums and related valuation fees.</li> <li>■ Contract charges for building services.</li> </ul>

- Maintenance of the premises and building services (but excluding responsibility for structural repairs).
- Provisioning of toilets.
- Grounds maintenance.
- Yard and car parking area maintenance.
- Management expenses.
- Costs of supplying an annual building warrant of fitness.

Unrecovered outgoings include:

- Structural repairs and maintenance.

Special conditions Not Applicable

### 9.2.5 The Property Group – Suite 7

Tenant	The Property Group Limited
The premises	Level 2, Suite 7
Commencement date	31 March 2020
Current commencement	31 March 2020
Current term	Six years
Remaining renewal terms	One of three years
Current annual rent	\$52,095 per annum plus outgoings and GST
Rent reviews	Annually.
Rent review basis	Fixed 2% with market reviews every three years.
Ratchet clause	For market reviews the rental on review shall not be less than the annual rent payable for the preceding 12 month period, nor shall it be greater than a 5% increase.
Business use	Commercial offices
Outgoings	Outgoings recoverable from the tenant include: <ul style="list-style-type: none"> <li>■ Rates.</li> </ul>

- Utility charges, rubbish and recycling collection charges.
- NZ Fire Service charges and maintenance charges in respect of all fire detection and fire fighting equipment.
- Building reinstatement insurance premiums and related valuation fees.
- Contract charges for building services.
- Maintenance of the premises and building services (but excluding responsibility for structural repairs).
- Provisioning of toilets.
- Grounds maintenance.
- Yard and car parking area maintenance.
- Management expenses.
- Costs of supplying an annual building warrant of fitness.

Unrecovered outgoings include:

- Structural repairs and maintenance.

Special conditions Not Applicable

### 9.2.6 Unleased Tenancies – Suites 3 and 8

In addition to Suites 3 and 8 there are five car parks not covered by the previously stated leases. One of these carparks is now leased in conjunction with the Vision Consulting space and so in our workings we have included this extra car park with this tenancy. For this reason the workings will show that the rental for this tenancy is actually \$54,579. For the remaining carparks and Suites 3 and 8, we have assessed a market rental based on standard lease terms and conditions for this type of property. For the sake of clarity these includes the following:

Rent reviews	Two yearly.
Rent review basis	Market.
Ratchet clause	The rental on review shall not be less than the annual rent payable as at the commencement date of the then current lease term.

Business use

Any use permitted by the zoning rules etc.

Outgoings

Outgoings recoverable from the tenant include:

- Rates.
- Utility charges.
- NZ Fire Service charges etc.
- Building reinstatement insurance premiums and related valuation fees.
- Contract charges for building services.
- Maintenance of the premises and building services.
- Provisioning of toilets.
- Grounds maintenance.
- Yard and car parking area maintenance.
- Management expenses.
- Costs of supplying an annual building warrant of fitness.

Unrecovered outgoings include:

- Structural repairs and maintenance.

### 9.3 OPERATING EXPENSES

We set out below a schedule of property operating expenses which we have adopted for the purpose of this valuation. They have been based on information provided by the property owner and also our own research:

Operating Expenses (OPEX)			
Item	Budgeted Amount	\$/m <sup>2</sup> of Rentable Area	% of Total
Local Authority Rates (ex GST)	\$26,441	\$11.30	23.3%
Charges for utilities	\$5,100	\$2.18	4.5%
Rubbish collection charges	\$2,800	\$1.20	2.5%
Fire Service charges & maintenance of detection equipment	\$3,780	\$1.62	3.3%
Insurance premiums & related valuation fees	\$17,764	\$7.59	15.6%
Service contract charges	\$5,706	\$2.44	5.0%
Cleaning, maintenance and repair charges	\$35,445	\$15.15	31.2%
Cost of ground maintenance	\$870	\$0.37	0.8%
Yard and car parking maintenance	\$440	\$0.19	0.4%
Management expenses	\$12,500	\$5.34	11.0%
BWOF and Building Act compliance costs	\$2,812	\$1.20	2.5%
<b>Total</b>	<b>\$113,658</b>	<b>\$48.58</b>	<b>100.0%</b>

The operating expenses are towards the lower end for CBD office type properties. This is mainly because there is no lift at this property.

### 9.4 WEIGHTED AVERAGE LEASE TERM

The property has a current WALT of 4 years on the leased tenancies. We have been provided with an unsigned letter from NZ Fire Service stating their wish to exercise their right of renewal. If this was confirmed then the WALT of the leased tenancies would increase to 4.7 years.

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# 10.0 MARKET COMMENTARY

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## 10.1 ECONOMIC OVERVIEW

New Zealand's economy continued to grow over the second half of 2019, albeit at a slower pace. The rate of growth was weighed down by global uncertainty, business pessimism, a soft housing market, credit concerns and late-cycle headwinds. The potential impact of the COVID-19 (corona virus) outbreak on our economy is uncertain and represents an emerging downside risk.

In the wake of the coronavirus the Reserve Bank of New Zealand has reduced the official cash rate to 0.25%, a reduction of 0.75%. The RBNZ has conveyed that the negative economic implications of the COVID-19 have warranted this monetary stimulus. The RBNZ has advised that should further stimulus be required, a Large Scale Asset Purchase programme of New Zealand government bonds would be preferable to further OCR reductions.

The Reserve Bank believes that low interest rates remain necessary to keep employment and inflation around target. Global trade and other political tensions continue to subdue the global growth outlook, dampening demand for New Zealand's goods and services. Business confidence remains low in New Zealand, partly reflecting policy uncertainty and low profitability in some sectors.

Global long-term interest rates remain at historically low levels, consistent with low expected inflation and growth rates into the future. Consequently, the Reserve Bank believes that New Zealand interest rates can be expected to be low for longer.

Several factors will continue to assist and support economic activity in New Zealand. New Zealand's financial system remains sound and our major financial institutions are well capitalised and liquid. The Reserve Bank is also ensuring that the banking system continues to function normally. The Government is operating an expansionary fiscal policy and has introduced a fiscal package to provide both targeted and broad-based economic stimulus. The New Zealand dollar exchange rate has also depreciated against our trading partners acting as a partial buffer for export earnings. However, the COVID-19 (coronavirus) outbreak is a downside risk and projections include a substantial short term rise in unemployment. We are already seeing significant impacts on global travel and its related businesses. The eventual economic impact on global supply and demand will depend on the location, severity, and duration of the virus.

## 10.2 REGIONAL PROPERTY MARKET

Prior to the COVID-19 virus pandemic the market had been typified by strong demand in this sector of the market by both investors and owner occupiers. Causes of the historically low interest rates being experienced world-wide have included weak global inflation and volatility in global financial markets, despite unprecedented stimulus from central banks. The growth of the NZ economy has slowed over the past year and is forecast to slow significantly further over the 2nd quarter of 2020. This is principally because of the COVID-19 pandemic and the impact of this on our economy is uncertain and represents an ongoing downside risk which could have a significant impact on some sectors, including tourism, hospitality and export industries. The size and duration of its impact is unknown. Until now, the Tauranga investment property market had seen yields fall since early 2013 with this being partly attributed to the result of high demand due to strong economic confidence and low unemployment in the region. This situation has also been driven by strong construction activity, increases in tourism and a solid outlook for the region's horticulture sector. New developments had also continued to establish rentals at new higher levels. That, together with a stable local economy were contributing to yields strengthening (decreasing) over the past 7 years or so. We now expect with the imminent economic impact on businesses, that the ability to meet rental commitments will be strained and resulting investor sentiment aligned with market uncertainty will lead to a general increase in yields over the balance of 2020 and possibly beyond.

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## 10.3 RENTAL MARKET

The office market in Tauranga has until recently had a low vacancy level and shown in recent years a noticeable uplift in rental rates. More pronounced upward pressure was shown on car park rental rates. Tenancies that provide lower quality space and / or without car parking were still recently proving challenging to lease. The supply of available office space in the central Tauranga area was reduced noticeably when the Tauranga City Council leased significant tracts of the CBD and in more recent time the fringe CBD. It is also noticeable that other tenants are again moving into and around the CBD. The flow on from these factors is a reduction in the supply of office space inside and outside in the CBD. The future of such increases is currently hard to predict given events relating to Covid 19. It is likely that downward pressure will be experienced.

# 11.0 MARKET RENT ASSESSMENT

## 11.1 INTRODUCTION

Income-based valuation assessments consider the cash flow that could be, or is, generated from the property. Part of the process is a review of the potential rental earning capacity, or Market Rent. Market Rent is defined in International Valuation Standard 104 as:

*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.*

To establish a market rental for the premise we have made comparison with recent rental settlements for comparable accommodation in the wider location.

The best evidence is that of new leasing agreements of comparable premises in the same or similar locations with the date of the transaction being as close as possible to the subject rent review date. Regard can also be had to lease renewals and rent reviews where these are consistent with the new lease evidence, however carry less weight.

The rental evidence has been analysed on a Net basis (excluding operating expenses).

Adjustments made for variation in factors such as the size and quality of accommodation, location and where the lease terms are varied.

## 11.2 RENTAL EVIDENCE

Rental settlements that assist in establishing a market rent include the following:

### 111 Cameron Road, Central Business District Fringe



<b>Tenant</b>			Cancer Society
<b>Date</b>			4 February 2020
<b>Type</b>			New lease
Offices etc	264.80 @	\$239.93/m <sup>2</sup>	
Rear building	29.10 @	\$125.00/m <sup>2</sup>	
Car parks - open	8.00 @	\$30.00/week	

This is the ground floor office space and rear building within 11 Cameron Road. The rent is currently set at \$79,650. The landlord owns the air conditioning, carpets and internal partitions. The space has been internally modernised to provide good quality office space.

### 2/104 Spring Street, Central Business District



<b>Tenant</b>		Moana Radio
<b>Date</b>		1 January 2020
<b>Type</b>		Rent review
Offices	182.00 @	\$270.00/m <sup>2</sup>
Basement parks	3.00 @	\$50.00/week
On-grade parks	1.00 @	\$40.00/week

A ground floor tenancy within a 1980s office building. The interior has undergone a comprehensive re-fit and is essentially new. The building retains its dated external appearance. The offices are leased on an open-plan basis, with carpet tile flooring and suspended ceilings. Floor to ceiling height is 2.7 metres and there is reasonable natural light via approximate 1/2 height glazing to the front and side external walls. There is limited outlook from the ground floor offices. Amenities and kitchen are finished to an average commercial standard. The rent is \$59,020 p.a.

### 1/104 Spring Street, Central Business District



<b>Tenant</b>		Builtin Insurance
<b>Date</b>		1 January 2020
<b>Type</b>		Rent review
Office	236.30 @	\$270.00/m <sup>2</sup>
Basement parks	3.00 @	\$50.00/week
On-grade parks	2.00 @	\$40.00/week
Storage unit	1.00 @	\$2,000.00/unit

This is the other ground floor tenancy within this refurbished 1980s office building. The interior has undergone a comprehensive re-fit and is essentially new. The offices are leased on an open-plan basis, with carpet tile flooring and suspended ceilings. Floor to ceiling height is 2.7 metres and there is reasonable natural light via approximate 1/2 height glazing to the front and side external walls. There is limited outlook from the ground floor offices. Amenities and kitchen are finished to an average commercial standard. The rent is \$77,761 p.a.

### 4/104 Spring Street, Central Business District



<b>Tenant</b>		GHD
<b>Date</b>		1 January 2020
<b>Type</b>		Rent review
Offices	189.10 @	\$270.00/m <sup>2</sup>
Storage unit	1.00 @	\$2,000.00/unit
On-grade carparks	1.00 @	\$40.00/week
Basement car parks	3.00 @	\$50.00/week

A completely refurbished first floor tenancy within Farming House, a 1980s office building. The tenancy has 3.0 metre ceiling height and reasonable outlook. Air-conditioning, all services and internal finishes were new in 2018. Includes high quality kitchen and amenities. Leased on an open plan basis. The current rent is \$62,937 p.a.

#### 4/525 Cameron Road, The Avenues



<b>Tenant</b>			BDO
<b>Date</b>			1 October 2019
<b>Type</b>			Renewal
Offices	554.30 @	\$263.28/m <sup>2</sup>	
Storage	48.00 @	\$80.00/m <sup>2</sup>	
Basement car parks	13.00 @	\$50.00/week	

This is a first floor office tenancy within 'The Hub', a 4 level office building with basement parking. The building was constructed in 2008 and is of above average quality. Internal fitout is tenant owned and the unit is leased on a carpeted, air-conditioned basis excluding kitchen. Also includes basement storage and 13 basement parks.

#### 1 Spring Street, Central Business District



<b>Tenant</b>			SwipedOn
<b>Date</b>			1 June 2019
<b>Type</b>			New Lease
Offices	432.00 @	\$232.16/m <sup>2</sup>	
Balcony	80.00 @	\$80.00/m <sup>2</sup>	

New lease of a large office located on the first floor of a 2-level commercial building that dates from the 1930s but was significantly refurbished and upgraded in 2003. It is located on the prominent intersection of The Strand and Spring Street. Excellent harbour views. The tenancy is mostly open plan with boardroom, meeting rooms. New paint and carpet. A 3 month rent holiday was granted. The rent is \$114,400 p.a. Net effective rates shown in analysis.

#### 141 Cameron Road, Central Business District Fringe



<b>Tenant</b>			Accessible Properties
<b>Date</b>			1 March 2019
<b>Type</b>			Rent Review
Offices	234.00 @	\$250.00/m <sup>2</sup>	
Car parks	6.00 @	\$35.00/week	

The tenancy is located on the upper floor of a two level office building located on a city centre zoned site of 1042 square metres to the western side of Cameron Road, on the western perimeter of the Tauranga central business area. To the northern side of the building there is uncovered car parking. The tenancy is carpeted and air conditioned. Contract rent of \$69,420.

### 100 Spring Street, Central Business District



<b>Tenant</b>	Mediterranean Shipping Company
<b>Date</b>	18 February 2019
<b>Type</b>	New Lease
Office	103.00 @ \$242.72/m <sup>2</sup>

New lease on the ground floor corner tenancy within a 2-level 1960s office building. This tenancy has been modernised and is well presented. There is a small meeting room in the front corner of the tenancy and the remainder is open. This tenancy has excellent natural light.

### 15 Harington Street, CBD



<b>Tenant</b>	Datacom
<b>Date</b>	1 February 2019
<b>Type</b>	New lease
Offices level 2	926.40 @ \$300.00/m <sup>2</sup>
Basement car parking	10.00 @ \$35.00/week
Fit out rent	926.40 @ \$27.89/m <sup>2</sup>

This is a recently completed three level office building plus a basement car parking area. The property is situated to the corner of Harington and Willow Streets, within the Central Business District of Tauranga. The property development has been branded as The Reserve. Datacom occupy space on Level 2 which the landlord has provided with air conditioning, carpets, lighting and ceiling tiles.

### 116 Cameron Road, Central Business District



<b>Tenant</b>	Maven
<b>Date</b>	1 December 2018
<b>Type</b>	New Lease
Offices	315.00 @ \$250.00/m <sup>2</sup>
Car parks - basement	6.00 @ \$42.54/week

This tenancy comprises ground floor space of the relatively modern office building on the corner of Cameron Road and Wharf Street. The tenancy comes with six secured basement car parks. Leased for a six year term for \$92,022.

### 1/50 Devonport Road, Central Business District



<b>Tenant</b>	Tauranga Community Housing Trust		
<b>Date</b>	14 September 2018		
<b>Type</b>	New Lease		
Offices	232.00 @	\$235.66/m <sup>2</sup>	
Secure basement parks	6.00 @	\$45.00/week	

An office tenancy located at the rear of the ground floor of a 1980s retail and office building. This has carpet flooring and suspended ceilings with 2.6 metre floor to ceiling height. Pleasant but interrupted outlook over the harbour. The tenancy is mostly open plan, save for a glazed room in the rear corner. Includes 6 basement parks.

### 1 Devonport Road, Central Business District



<b>Tenant</b>	Tonkin and Taylor		
<b>Date</b>	1 August 2018		
<b>Type</b>	New Lease		
Offices	650.07 @	\$280.00/m <sup>2</sup>	
Decks	118.39 @	\$100.00/m <sup>2</sup>	
Car parks, secure uncovered	10.00 @	\$40.00/week	

This is the leasing of completely refurbished offices within a 1980s 2-level commercial building on the corner of Devonport Road and Spring Street. The landlord provided the shell, with the tenant undertaking all fitout including HVAC, floor and ceiling coverings, bathrooms and kitchens. The landlord though contributed \$269,500 to these costs, (\$400 per square metre).

### 5/35 Grey Street, Central Business District



<b>Tenant</b>	Boffa Miskell		
<b>Date</b>	21 June 2018		
<b>Type</b>	New Lease		
Offices	540.00 @	\$274.80/m <sup>2</sup>	
Unrecovered OPEX	540.00 @	\$50.00/m <sup>2</sup>	

The entire fifth floor of South British House; an extensively refurbished multi-level building near the Spring Street end of Grey Street. The lease comes with the operating expenses included. Leased for \$175,384 per annum.

### 11.3 MARKET RENT SUMMARY AND CONCLUSION

Based on the evidence available we analyse the following rental range:

Component	Rental Rate Range
Offices	\$232.16/m <sup>2</sup> - \$280.00/m <sup>2</sup>
Car parks – open parks	\$30.00/week - \$40.00/week

We have considered a range of office premises and have endeavoured to find examples of a similar size, age and quality to the subject spaces. Within the subject property though we now need to recognise that there are three broad categories of space. To the middle and upper levels all but one of the tenancies comprise refurbished space with good levels of natural light. To the middle level the Vision Consulting Space is still in an un-refurbished condition. To the ground level the two tenancies provide space, that whilst modernised has a dearth of natural light and particularly for the larger tenancy (NZ Fire Service) a limited appeal to occupiers.

In applying rental rates to the subject tenancies, we need to weigh up the uncertainty created by the recent COVID-19 dynamics with the general trend of the market. This task is made difficult by the lack of available rental data, post COVID 19 emergence. Our response has been to take a cautious approach and recognise that there will be disruption to the demand for office space, with no real corresponding change in the supply of office space (that is the total tenanted and untenanted supply of office space is neither higher nor lower at present). This is likely to play out in a reduced demand for office space which could in time apply enough downward pressure on rental rates to force rental reductions. However, we would caution that whilst considered likely, this is but one possible outcome of the current dynamic situation. Given this please note that whilst we have assessed market rentals on each of the two vacant tenancies at the subject, we have also allowed for rental inducements on these spaces. See section 12.5.2 for further information

Analysis of the office leases detailed earlier shows a range between \$230 and \$280 per square metre. Given the characteristics of the ground floor tenancies, we would expect their adopted market rents to be below this range. Specific commentary on the rental comparison examples is detailed below.

The offices at 1/50 Devonport Road were leased in September 2018 for \$235 per square metre. These offices occupy a rear position down a narrow arcade within an inferior building to the subject. This example has more in common with the ground floor spaces at the subject.

The offices at 15 Harington Street are in a recently constructed building and were leased at \$300 per square metre with the Landlord provided air conditioning, carpets, lighting and ceiling tiles. Given the as new status of this building, we believe that after allowing for size etc, the market rents at the subject sit below this level.

The offices at 1 Devonport Road and 104 Spring Street are the most relevant being of similar age and character. These rents sit within the relatively narrow range between \$270 to \$280 per square metre. The example at 35 Grey Street sits within this range is a refurbished older building with no on site car parking.

The subject offices are tidy and most are well presented with good position, but with little outlook. The un-refurbished spaces are slightly dated when compared with more modern buildings, or those that have recently undergone significant upgrades.

For the refurbished space we also have the recent leasing of the Property Group tenancy (Suite 7) which shows a rental rate of \$285 per square metre. Given the size and outlook from this tenancy, we consider that this rental rate is appropriate to adopt as a market rental for the purposes of this valuation.

Behind this tenancy is the vacant Suite 8 space, which is nearing completion of refurbishment works. This space is slightly larger than the new Property Group space and its outlook is mainly to the rear service lane. We are aware that the space has been advertised for lease for \$295 per square metre. Overall, we believe that the market evidence does not back up a rate this high. We have adopted a rental rate of \$275 per square metre. This rate sits within the range of rentals shown to the three examples from 104 Spring Street.

On the middle floor Suite 4 was very recently leased to BONZ at a rental rate of \$280 per square metre. This space had an impressive fitout and taken in conjunction with the other market evidence, indicates that this rental rate should be adopted for the purposes of this valuation.

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Elsewhere on this level PMG Funds lease Suite 5 also at \$280 per square metre. We are cognisant that this entity also manages the subject building. Nonetheless this rental rate is in alignment with the BONZ rental and is of a similar size. The space does not though receive the same levels of natural light as the BONZ tenancy (which has glazed frontage to three sides). We believe then that a market rental for the PMG Funds space should be slightly below the BONZ rental rate to reflect this and overall have adopted \$275 per square metre.

This tenancy also includes a rental for outdoor patio space. Examples of such rentals are not common, but from our experience tend to show rates between \$65 per square metre for low profile patio space to \$150 and even \$175 per square metre for smaller balcony space. We are aware of balcony and covered patio space on The Strand at between \$110 and \$175 per square metre respectively. However, this shows that such rental rates are sensitive to the potential for retail/hospitality style uses and also outlook. For the subject there is realistically no potential for retail/hospitality style uses and there is no significant outlook and consequently we consider that the rental rate applied should be noticeably lower than these examples. Also, at 93 square metres the patio area is large in comparison to the average. Finally, we need to recognise that the added utility of such a large amount of patio space is limited for an office user. The prevailing rental on the PMG Funds patio is stated in the lease documentation at \$75 per square metre and this equates to an added rental of nearly \$7,000 per annum. Overall, we consider that this rate aligns with the (albeit) limited market evidence and have adopted it for this valuation.

The remaining space on this middle level is leased to Vision Consulting. We understand that this space has not been refurbished by the landlord. Nonetheless its analysed contract rental rate of \$185 per square metre (set upon the lease commencement in March 2018) is now noticeably below that of the neighbouring tenancies within this structure. Given the current uncertain economic conditions, we have taken a cautious approach and applied \$200 per square metre.

To the ground floor are the remaining two tenancies. The NZ Fire Service tenancy currently has an analysed rental rate of approximately \$130 per square metre. Whilst this is well below the other evidence within the building, this space receives little natural light (except to the road frontage portion) and is of a large size not in demand by most office users. Further, since its commencement in 2012 the rental has been adjusted by CPI, whilst the general market has until now increased above the rate of CPI for most of this time.

We consider that the best comparable we have is the leasing of the Tauranga Community Housing Trust space on Devonport Road. This space has an outlook to the Tauranga harbour. After allowing for this superior outlook and then making adjustments for size and other characteristics, we consider that a rental rate of more than \$150 per square metre on the NZ Fire Service space would be difficult to justify at present.

For the storage space at this tenancy we have adopted \$100 per square metre. Examples of CBD based storage tenancies are rare. Although not quoted earlier, we are aware of secondary basement warehouse space on the CBD fringe leased at \$75 per square metre. At 111 Cameron Road the basic rear building (containing some storage space) is leased at \$125 per square metre. Whilst in the nearby Glasgow Street area warehouse style space typically leases between \$85 and \$120 per square metre. In particular we note a leasing from 2018 of storage space at \$85 per square metre to the back of the Health and Wellness Services tenancy at 154 First Avenue West.

We would caution though that the NZ Fire Service lease only provides for CPI reviews. Therefore, although there is a variance between the current contract rental and the assessed market rental, obtaining a market rental on this tenancy is unlikely whilst this lease is operative.

The final tenancy is known as Suite 3 and is currently occupied by The Property Group until their new tenancy at the subject property (Suite 7) is available. This lease has also had CPI based reviews since commencement and the last known rental for this space had an analysed rental rate over \$200 per square metre. We are aware that the space has been advertised for lease for \$230 per square metre and we consider that a rental rate of \$225 per square metre is appropriate to adopt for this space.

The open car park evidence shows a range between \$30 and \$40 per park per week. Most of the recent evidence from within the CBD show a clear rate of \$40 per week. There has been significant growth in car park rents throughout the Tauranga CBD recently. We have then assessed a rate of \$40 per week for each of the subject parks.

## 11.4 PASSING VS MARKET RENT ANALYSIS

Our analysis of the current passing rent in comparison to the assessed market rent is shown to the following page:

Passing & Market Rent Comparison							
Component	Area/Units m <sup>2</sup> /units	Passing Rent Analysis		Market Rent Analysis		Variance	
		\$/m <sup>2</sup> or unit	\$pa	\$/m <sup>2</sup> or unit	\$pa	\$	%
<b>Tenant: Fire &amp; Emergency - Suites 1 &amp; 2</b>							
Offices - ground floor	566.2	\$129.48	\$73,313	\$150.00	\$84,930	(\$11,617)	(15.8%)
Storage	263.6	\$85.00	\$22,406	\$100.00	\$26,360	(\$3,954)	(17.6%)
Car parks - open	5	\$21.27	\$5,530	\$40.00	\$10,400	(\$4,870)	(88.1%)
<b>Subtotal</b>			<b>\$101,249</b>		<b>\$121,690</b>	<b>(\$20,441)</b>	<b>(20.2%)</b>
<b>Tenant: Vacant 1 - Suite 3</b>							
Offices - ground floor	143.0	-	-	\$225.00	\$32,175	(\$32,175)	-
Car parks - open	2	-	-	\$40.00	\$4,160	(\$4,160)	-
<b>Subtotal</b>			<b>\$0</b>		<b>\$36,335</b>	<b>(\$36,335)</b>	<b>-</b>
<b>Tenant: BONZ - Suite 4</b>							
Offices - middle level	310.2	\$280.00	\$86,856	\$280.00	\$86,856	-	-
Car parks - open	4	\$40.00	\$8,320	\$40.00	\$8,320	-	-
<b>Subtotal</b>			<b>\$95,176</b>		<b>\$95,176</b>	<b>-</b>	<b>-</b>
<b>Tenant: PMG Funds - Suite 5</b>							
Offices - middle level	342.5	\$280.00	\$95,892	\$275.00	\$94,179	\$1,712	1.8%
Outdoor area	93.0	\$75.00	\$6,975	\$75.00	\$6,975	-	-
Car parks - open	4	\$35.00	\$7,280	\$40.00	\$8,320	(\$1,040)	(14.3%)
<b>Subtotal</b>			<b>\$110,147</b>		<b>\$109,474</b>	<b>\$672</b>	<b>0.6%</b>
<b>Tenant: Vision Consulting - Suite 6</b>							
Offices - middle level	252.9	\$185.00	\$46,779	\$200.00	\$50,572	(\$3,793)	(8.1%)
Car parks - open	5	\$30.00	\$7,800	\$40.00	\$10,400	(\$2,600)	(33.3%)
<b>Subtotal</b>			<b>\$54,579</b>		<b>\$60,972</b>	<b>(\$6,393)</b>	<b>(11.7%)</b>

Component	Area/Units m <sup>2</sup> /units	Passing Rent Analysis		Market Rent Analysis		Variance	
		\$/m <sup>2</sup> or unit	\$pa	\$/m <sup>2</sup> or unit	\$pa	\$	%
<b>Tenant: The Property Group - Suite 7</b>							
Office - top floor	163.6	\$285.00	\$46,635	\$285.00	\$46,635	-	-
Car parks - open	3	\$35.00	\$5,460	\$40.00	\$6,240	(\$780)	(14.3%)
<b>Subtotal</b>			<b>\$52,095</b>		<b>\$52,875</b>	<b>(\$780)</b>	<b>(1.5%)</b>
<b>Tenant: Vacant 2 - Suite 8</b>							
Office - top floor	204.5	-	-	\$275.00	\$56,249	(\$56,249)	-
Car parks - open	2	-	-	\$40.00	\$4,160	(\$4,160)	-
<b>Subtotal</b>			<b>\$0</b>		<b>\$60,409</b>	<b>(\$60,409)</b>	<b>-</b>
<b>Total</b>			<b>\$413,245</b>		<b>\$536,930</b>	<b>(\$123,685)</b>	<b>(29.9%)</b>

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## 12.0 SALES EVIDENCE

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### 12.1 INTRODUCTION

To assist in establishing the Market Value of the property we have analysed relevant sales of investment properties. We summarise below brief definitions of salient valuation metrics to assist the reader:

**Yield on passing income** Often referred to as initial yield, the passing yield represents the return on the current net income. It is calculated from a single period and is therefore implicit of inflation. It is calculated by dividing the net income by the sale price or value.

**Yield on market income** This metric represents the return that would be achieved with the income at market level. It is based on a single period and is therefore implicit of inflation. It is calculated by dividing the market income by the sale price or value.

**Equivalent yield** The equivalent yield represents the return on market income but reflecting known value adjustments such as income shortfalls/surpluses, vacancy, leasing costs and other capital items that a market participant would recognise. It typically

represents the relationship between passing and market income and is generally a 'weighted average' of the two.

**Discount rate**

This metric represents the opportunity cost of capital to a purchaser, being the annualised total return (capital and income) to the investor over a specified investment horizon, adjusted for inflation. It is the rate calculated/applied to convert future values to present value.

**Weighted average lease term to run (WALT)**

This is a risk measure and represents the weighted average period in which the leases will expire; it reflects the period in which the income from the property will be secure. The weightings have been calculated by income, but can also be calculated based on occupied area.

**\$/m<sup>2</sup> of rentable area**

Defined in this report as the sale price less an allowance for land and site development. The remaining figure is then divided by the building area.

## 12.2 INVESTMENT SALES

Sales analysed to assist in calculating the market value of the subject property include:

### 142 Durham Street, Central Business District



<b>Sale date</b>	21 November 2019
<b>Sale price</b>	\$3,050,000
<b>Tenant</b>	Vacant office building
Yield on passing income	N/A
Yield on market income	10.00%
Equivalent yield	8.10%
Discount rate	9.30%
Weighted avg. lease term	N/A
\$/m <sup>2</sup> of rentable area	\$2,118/m <sup>2</sup>

Please note that the sale price was not confirmed as at 13 March 2020. This is a vacant 2-level office building that was constructed in the 1980s. It had been tenanted by the University of Waikato and sold with the lease expiring. The building required significant conversion to office space, new air-conditioning and extensive upgrades to obtain fire-code. Our analysis is subjective, but based on full internal upgrade to open plan offices at an estimated cost of \$1.5m, together with 12 months vacancy. Yield on market income is based on office space 'as is'. Equivalent yield is based on upgrade. We understand that the property may have been purchased by an owner of adjoining property for development. 80% NBS and good provision of basement and on-grade parking.

### 25 Park Street, Central Business District Fringe



<b>Sale date</b>	24 October 2019
<b>Sale price</b>	\$8,400,000
<b>Tenant</b>	Tauranga Eye Specialists
Yield on passing income	5.00%
Yield on market income	5.00%
Equivalent yield	5.00%
Discount rate	5.50%
Weighted avg. lease term	6.4 years
\$/m <sup>2</sup> of rentable area	\$8,485/m <sup>2</sup>

A two-level commercial building purpose-built in 1998 for health operations. The ground floor provides medical consulting rooms, whilst the first floor is a day theatre facility. All internal fitout is landlord owned. The standard of accommodation and fit-out throughout is of a superior quality although is now appearing slightly dated in some areas of the building, particularly when compared with modern buildings. External walls are textured plaster over plywood and concrete blocks. The property occupies a 2,254 square metre site in the Tauranga CBD fringe. Leased at market level. 100% NBS.

### 111 Cameron Road, Central Business District



<b>Sale date</b>	21 October 2019
<b>Sale price</b>	\$2,575,000
<b>Tenant</b>	NZ Cancer Society
Yield on passing income	3.09%
Yield on market income	5.63%
Equivalent yield	5.50%
Discount rate	6.00%
Weighted avg. lease term	2.3 years
\$/m <sup>2</sup> of rentable area	\$4,525/m <sup>2</sup>

This is a two storey 1980s office building with a rear annex situated on an 812 square metre City Centre Business Zoned site with frontage to Cameron Road. The ground floor is good quality occupied by the Cancer Society, whilst the first floor is dated but functional and was vacant. 88% NBS.

### 1 Devonport Road, Central Business District



<b>Sale date</b>	16 August 2019
<b>Sale price</b>	\$10,500,000
<b>Tenant</b>	Multiple
Yield on passing income	5.23%
Yield on market income	6.54%
Equivalent yield	6.44%
Discount rate	7.00%
Weighted avg. lease term	6.0 years
\$/m <sup>2</sup> of rentable area	\$4,106/m <sup>2</sup>

This property is sited to the south-western corner of Devonport Road adjacent to what is known as the Red Square or Mid City pedestrian mall. This site is developed with a 1980's two level building having 8 retail tenancies to the ground level and office accommodation comprising one medium sized office tenancy and 4 small office suites, to the upper level. In addition, 10 car parking spaces have been developed to the upper level with these being accessed by means of a concrete ramp off service lane access from Grey Street. The building has a minimum seismic rating of 83% NBS and is not an earthquake prone building. The property at the date of sale had 3 vacant ground level tenancies.

### 152 Devonport Road, Central Business District Fringe



<b>Sale date</b>	14 June 2019
<b>Sale price</b>	\$18,074,453
<b>Tenant</b>	Sharp Tudhope Building
Yield on passing income	5.82%
Yield on market income	5.84%
Equivalent yield	5.83%
Discount rate	6.33%
Weighted avg. lease term	3.4 years
\$/m <sup>2</sup> of rentable area	\$6,859/m <sup>2</sup>

This is a high quality 4-level office building with 2-levels of basement parking. The building is Green Star rated and was constructed in 2012. It is located on the corner of First Avenue and Devonport Road, at the periphery of the Tauranga CBD. The property was sold fully leased, at near market rent. Tenants are Sharp Tudhope Lawyers, PowerCo, IAG and Ignite Architects.

### 49 to 51 The Strand, Central Business District



<b>Sale date</b>	1 March 2019
<b>Sale price</b>	\$6,995,000
<b>Tenant</b>	Financial Independence and
Yield on passing income	5.03%
Yield on market income	5.04%
Equivalent yield	5.04%
Discount rate	5.84%
Weighted avg. lease term	7.1 years
\$/m <sup>2</sup> of rentable area	\$6,319/m <sup>2</sup>

This is a recently completed four level office and retail building situated on a city centre zone site of 294 square metres. The total building area is 1,107 square metres and for each tenancy the landlord has provided a base build which includes the air conditioning, but not the internal partitions (except for the Sotheby's tenancy). The building was sold fully tenanted.

### 33 Brown Street, Central Business District Fringe



<b>Sale date</b>	24 February 2019
<b>Sale price</b>	\$1,900,000
<b>Tenant</b>	Vacant Possession
Yield on passing income	N/A
Yield on market income	5.15%
Equivalent yield	5.00%
Discount rate	5.50%
Weighted avg. lease term	N/A
\$/m <sup>2</sup> of rentable area	\$7,344/m <sup>2</sup>

The property is a 1990's freestanding office building located on the periphery of Tauranga's CBD; in a mixed use area that has offices, accommodation and residential uses. Situated on a site of 858 square metres with frontage to Brown Street. Tidy but slightly dated interior. Sold at auction.

### 184 Cameron Road, Central Business District



<b>Sale date</b>	6 September 2018
<b>Sale price</b>	\$2,700,000
<b>Tenant</b>	Multi-tenanted office and retail
Yield on passing income	5.37%
Yield on market income	5.37%
Equivalent yield	Not calculated
Discount rate	Not calculated
Weighted avg. lease term	Not calculated
\$/m <sup>2</sup> of rentable area	\$4,341/m <sup>2</sup>

This is a two level 1970s commercial building comprising retail, office and storage accommodation. The property occupies a 795 square metre site within the Tauranga CBD. It was sold off-market to the Waikato University, with their campus located directly opposite but not neighbouring. The sale is recorded as non-bona fide, but appears to be arms-length, but with some adjoining owner premium paid. Full tenancy information is not available, but we have been advised by a local agent the contract rent at sale date was \$144,959 plus GST. This appears at market level. IEP is 79% NBS. We have placed limited reliance on this sale due to the lack of information and circumstances surrounding the sale.

### 40 Selwyn Street, Central Business District



<b>Sale date</b>	14 June 2018
<b>Sale price</b>	\$3,050,000
<b>Tenant</b>	FMG and Forsyth Barr
Yield on passing income	4.76%
Yield on market income	5.11%
Equivalent yield	5.09%
Discount rate	5.46%
Weighted avg. lease term	1.1 years
\$/m <sup>2</sup> of rentable area	\$5,787/m <sup>2</sup>

The property comprises a commercial zoned site of 667 square metres that is located to the north-eastern corner of Selwyn Street and Elizabeth Street on the western perimeter of the Tauranga central business area. The land is developed with a single level office building completed in 2013 that has secure basement car parking and lift access. It is fully tenanted by FMG and Forsyth Barr. The space is carpeted and air conditioned by the Landlord.

### 12.3 SALES SUMMARY

Address	Sale Date	Sale Price	WALT (years)	Passing Yield	Market Yield	Equivalent Yield	Discount Rate	\$/m <sup>2</sup> Rentable Area
142 Durham Street	Nov 2019	\$3,050,000	Vacant	0.00%	10.00%	8.10%	9.30%	\$245
25 Park Street	Oct 2019	\$8,400,000	6.4	5.00%	5.00%	5.00%	5.50%	\$2,768
111 Cameron Road	Oct 2019	\$2,575,000	2.3	3.09%	5.63%	5.50%	6.00%	\$1,073
1 Devonport Road	Aug 2019	\$10,500,000	6.0	5.23%	6.54%	6.44%	7.00%	\$1,424
152 Devonport Road	Jun 2019	\$18,074,453	3.4	5.82%	5.84%	5.83%	6.33%	\$4,092
49 to 51 The Strand	Mar 2019	\$6,995,000	7.1	5.03%	5.04%	5.04%	5.84%	\$4,851
33 Brown Street	Feb 2019	\$1,900,000	Vacant		5.15%	5.00%	5.50%	\$1,739
184 Cameron Road	Sep 2018	\$2,700,000	Vacant	5.37%	5.37%			\$1,109
40 Selwyn Street	Jun 2018	\$3,050,000	1.1	4.76%	5.11%	5.09%	5.46%	\$3,070
<b>Ranges</b>				<i>minimum</i>	<b>5.00%</b>	<b>5.00%</b>	<b>5.46%</b>	<b>\$245</b>
				<i>maximum</i>	<b>10.00%</b>	<b>8.10%</b>	<b>9.30%</b>	<b>\$4,851</b>

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## 12.4 INVESTMENT PROFILE

In establishing appropriate investment benchmarks for the property we have considered its investment profile in terms of:

### Location

The property is located in the Tauranga CBD, but away from the absolute centre of the CBD (being Red Square). There are currently high levels of development in the immediate proximity that should enhance the location in the short to medium term. Tauranga in general is subject to good investor demand.

### Building quality

The building now has several modern tenancies which have been finished to a high standard with the landlord working towards upgrading all tenancies as they come up for lease. These upgraded tenancies have rentals that sit at the upper end of the market range. The building however retains its dated external appearance.

The building has an excellent NBS rating of 90%. The seven tenancies are of varying size, though most are of the more popular smaller sizes, for which there has been until recently steady, but not strong demand. There is good provision of on-grade parking which is unusual in the in the Tauranga CBD where many buildings have no parking. There is a current shortage of parking available in the CBD.

### Scale of investment

A search of the *Property Guru* website shows that over the last two years, sales of commercial and industrial property in the Tauranga area (excluding vacant land) had an average price of \$2,150,000. The highest price was just over \$25 million. Of the 271 property sales in this time period:

- 91 (47.6%) were under \$1,000,000.
- 50 (18.5%) were between \$1,000,000 and \$2,000,000.
- 41 (15.1%) were between \$2,000,000 and \$3,000,000.
- 26 (9.6%) were between \$3,000,000 and \$5,000,000.
- 15 (5.5%) were between \$5,000,000 and \$10,000,000.
- 10 (3.7%) were over \$10,000,000.

The subject property falls within the upper tier price bracket.

### Tenant strength

Leased to mostly local tenants. There are two vacancies in the subject property and we consider it will be challenging to lease these in the short term. In Section 12.5.2 we have discussed further our view of the current tenants.

### Weighted average lease term to run

This has been calculated at just 4 years. This is acceptable towards the lower end of an acceptable WALT range.

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## 12.5 COVID-19 DISCUSSION

### 12.5.1 Introduction

Impact on owner occupiers and investors due to the current economic climate and the fast changing environment will cause hesitation in terms of purchase decisions. Business decisions will be delayed in the first instance as actual and potential impacts are measured. Historically in times of economic upheaval, such as the Global Financial Crisis (GFC), the first reaction was to do nothing. Transactions dried up initially, followed by a period where forced sale situations occurred. Should the current situation extend out beyond the short term and the market remains subdued, then the lower levels set by these initial transactions may well become the norm and the new accepted level.

At this time, it appears that sentiment is that this first stage of the post COVID-19 environment (lockdown/business disruption) will be a relatively short term event, with media reporting China is already returning to normalcy. Though the economic effects are expected to be longer term and significant.

There have been no notable sales since the COVID-19 pandemic took effect, however the buoyant optimism seen in the market previously has now evaporated. Purchasers may err on the side of caution however it is our view that there will be little impact on the yields initially, but this depends entirely on the duration of the lockdown and interruption to businesses operations.

Purchasers are more likely to consider the risk of reduced or loss of rental income over the next 12 months as businesses either fail or request rental relief from landlords. Another consideration would be the amount of time it would take to secure occupants for any vacant premise.

### 12.5.2 Property specific comment

When undertaking our valuation, we have considered the following characteristics of the property that will largely determine the impact that the COVID-19 virus may have on its value:

#### Type of asset

The property's asset class is office. Office properties are moderately impacted by adverse economic events such as this. Post the lockdown phase (alert Level 4) it is anticipated that workers could return to office premise (though there is some uncertainty around the status of offices when the country is in Level 3). At this stage, most professional services are continuing to operate, albeit potentially at reduced capacity which may also extend through a recovery period.

#### Quality of asset

This is a relatively prime asset. Uncertain economic times often create a 'flight to quality' and prime assets are less affected than other properties.

#### Tenant type and quality

The property is occupied by a mix of government, national and local tenants. With the exception of the NZ Fire Service, we believe that they are not able to provide essential services during the lockdown period. They are likely to be impacted to a greater degree during the lockdown period and through any adverse economic times following. This is moderated somewhat though by the NZ Fire Service tenancy, though the risk factor here is that they do not renew their lease later this year. We believe that whilst the property companies in the building will be negatively affected, this will be at the low end of the scale. At the higher end of the scale of negative effects is likely to be Vision Consulting and BONZ. Given that Vision Consulting is a language school we consider that a rental rebate of 50% will be in place for this tenancy of for 12 months. The income from the property overall is therefore expected to be moderately impacted.

#### Location

The Tauranga commercial property market has been characterised by high levels of investor ownership and it likely that there are lower levels of debt funding of commercial properties compared to other locations. Tauranga is often considered to be more insulated

than other provincial locations to adverse economic events. Despite this, Tauranga's main retail areas rely partly on visiting cruise ships in the spring and summer months and it is expected that recovery in this sector could extend to the medium term.

#### Valuation adjustments

In this instance, we have made a marginal adjustment to capitalisation rates and consider the impact is better encapsulated by making explicit adjustments to the valuation that reflect potential disruptions to the income profile.

Taking account of the above, we have made the following adjustments to the various valuation inputs:

- Rent inducements. An explicit allowance has been made for rent inducements of \$22,000. This has been calculated at 3 months of rental income (i.e. a 3 month rent free period as an inducement to get tenants). This does not include an allowance for operating expenses, which we have assumed will be paid in this assumed 3 month rent free period. Details of the calculation of this amount are shown to the following page.
- General rent rebates. An explicit allowance for rent rebates of \$34,159. This has been calculated at 2 months at 50% rebate for each of the leased tenancies, with the exception of the NZ Fire Service tenancy. This does not include an allowance for operating expenses, which we have assumed will be paid. In making this allowance we have received information from the client that 1 month at 50% of rental has been offered so far to several of the tenants. We have been cautious in our assessment here and extended this to 2 months for the purposes of the valuation. Please note that as per our earlier discussion, we have separately calculated a rebate of 50% for a further 10 months on the Vision Consulting tenancy. This additional rebate has been allowed for in our calculations separately.
- Vacancies. We have extended the vacancy periods within our valuation calculations to 18 months. Prior to COVID-19, we would have adopted 6 to 9 months for this property.
- Capitalisation rate. We have softened the capitalisation rate slightly to price in the additional risks. We have therefore adopted a capitalisation rate at the upper end of the market range, which generally is more in line with prices in early 2019.

Our calculation of the rental inducements is summarised for each of the vacant tenancies as follows:

<b>Rental Inducements - Vacant Tenancy 1 (Suite 3)</b>	
<b>Annual Rent</b>	<b>\$36,335</b>
<b>Monthly rent</b>	<b>\$3,028</b>
<b>Adjustments</b>	
▪ Rent free period	3 months
▪ Discount Rate	6.75%
▪ Present Value Factor (to the start of the lease)	2.9666
<b>Present Value to the start of the lease</b>	<b>\$8,983</b>
▪ Present Value Factor to the valuation date - 18 months	0.9163
<b>Total Present Value of the Rental Rebate</b>	<b>\$8,231</b>
	<b>Adopt \$8,000</b>

<b>Rental Inducements - Vacant Tenancy 2 (Suite 8)</b>	
<b>Annual Rent</b>	<b>\$60,409</b>
<b>Monthly rent</b>	<b>\$5,034</b>
<b>Adjustments</b>	
▪ Rent free period	3 months
▪ Discount Rate	6.75%
▪ Present Value Factor (to the start of the lease)	2.9666
<b>Present Value to the start of the lease</b>	<b>\$14,934</b>
▪ Present Value Factor to the valuation date - 18 months	0.9163
<b>Total Present Value of the Rental Rebate</b>	<b>\$13,684</b>
	<b>Adopt \$14,000</b>

A total amount of \$22,000 has therefore been allowed. In addition our Income Capitalisation and DCF methods have adopted an additional 10 months at 50% for the Vision Consulting tenancy.

## 12.6 CONCLUSIONS

### 12.6.1 Yield

This is a relatively lower profile location within the CBD. Though it's location close to the University of Waikato has recently increased traffic. This combined with the upgrade works have enhanced the location. The property comprises an office development in a location characterised by some new and high quality development – the University of Waikato and Trustpower properties. The building is dated to the exterior and lacks a certain degree of prestige as a result, but is effectively new to much of the interior. It also has good car parking which is rare in the Tauranga CBD and helps with the marketability of the space.

The sale of 142 Durham Street sticks out as an outlier and we note that this property was sold vacant and the interior was set up as classrooms and general education space. It is our view that this is more of a redevelopment proposition and therefore the majority of the sale price in this instance represented a land value. Consideration of its yield is then somewhat difficult in relation to the subject which is not in this category.

Most of the remaining sales then show a yield range between 5% and 6%. One notable exception though is the sale of 1 Devonport Road that provided an analysed equivalent yield close to 6.5%. Though this property was affected by having vacant tenancies.

Most of the quoted sales had better WALTs than the subject and /or more prominent positions.

There is now a large amount of uncertainty in the post COVID-19 environment and we are not aware of any local commercial/industrial sales that have occurred subsequent to the escalation in alert levels. We have also contacted agents whilst writing this report and have been informed that a property due to have tenders closing in the lockdown was pulled from the market and other marketing campaigns have been suspended. This indicates a hesitancy in the market and whilst no clear indication is yet forming for the direction of yields, we have erred on the side of caution.

Taking account of the above, we have assessed a capitalisation rate for the subject would reasonably lie within a range of 6% to 6.50% to apply to the market income. Given the uncertainty in the market, we have adopted the upper end of this range of 6.5%

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For the Discounted Cash Flow method we have adopted a terminal yield of 7% in recognition that the property will be older at the end of the ten year time horizon provided for under this approach.

Discount rates tend to be close to the passing yield of a property and those properties with higher yield (typically meaning higher risk) have a higher discount rate. Overall we have adopted a discount rate of 6.75% for the subject.

### **12.6.2 Building Rates**

The list of sales given earlier also details analysed building net rates for each property. That is, the sale price less an allowance for the land and site development, divided by the building area.

We have examined these sales and also other sales not detailed in this report and note that in general older type office space tends to show building net rates of between \$1,000 and \$1,500 per square metre. Whilst new office buildings typically range between \$2,500 and \$5,000 per square metre. The subject building is now a slightly dated building with a substantially modernised interior. Overall, we have adopted a rate of \$2,000 per square metre.

### **12.6.3 Land Rates**

The only land sale in the Central Business District in recent years has been that of 199 to 213 Cameron Road with this showing a land rate close to \$2,700 per square metre for a 2,192 square metre site. This property was though situated within a zone where the permitted building height is 19 metres above the ground level. Whilst this is less than for the subject site, the Cameron Road property has a far higher profile to passing traffic.

We can also analyse improved sales to obtain underlying land values. These sales are more subjective and therefore are not as reliable as land sales. However, vacant land is typically not available within the CBD and therefore analysed improved properties is more common. In this regard we have listed analysed land values from the following City Centre Zoned sales:

- 142 Durham Street \$2,868 per square metre for an 863 square metre site
- 111 Cameron Road \$2,500 per square metre for an 812 square metre site
- 184 Cameron Road \$2,515 per square metre for a 795 square metre site

The two Cameron Road sales were in a lower height limit area, with this being the same as for the previously mentioned sale of 199 to 213 Cameron Road. The Durham Street sale is located opposite the subject property and is in the same height limit.

There is a clear correlation between the land area and the analysed land rate. Therefore having a land value twice that of these three sales needs to be taken in to consideration.

We are cognisant that the subject has the benefit of frontage to both Durham Street and the rear service lane.

Overall, we have adopted a land rate for the subject of \$2,000 per square metre.

## 13.0 VALUATION

### 13.1 HIGHEST AND BEST USE

The Market Value of an asset will reflect its 'highest and best use'. The highest and best use is the use of an asset that maximises its potential and that is physically possible, legally permissible and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.

### 13.2 VALUATION APPROACHES AND METHODS

To establish Market Value, as per International Valuation Standard 105, we have utilised the following recognised valuation approaches:

- Income Approach
- Market Approach

#### 13.2.1 Income Approach

The Income Approach is predicated on the conversion of net actual or market income, which either is or could be generated by an owner of the interest, to value.

#### Income Capitalisation

This method encompasses the conversion of net income (actual, market or notional) to value via the application of a capitalisation rate or yield (investment return). The basic premise of income capitalisation is that a property investor expects a pre-determined rate of return on their investment. The yield varies according to a number of factors including: risk, type & scale of investment, location, residual lease term and expected income and capital value growth. The two main variables, namely income and yield, are analysed from available rental and sales evidence.

Implicit adjustments are made when determining an appropriate yield to apply, however, in instances where the contract rent varies from market rent, the present value of the variation is adjusted against the capitalised value. The capitalised value may also be adjusted for costs associated with vacancy if existing or imminent, refurbishment/incentives and capital expenditure.

In relation to the investment yield we have analysed a wide range of sales. Based on the sales evidence, and reflecting the key investment criteria of the subject property, we have concluded an appropriate return of 6.50% on the market cashflow.

In completing our assessment via this method we have deducted explicit allowances for vacancy from the capitalised value comprising an initial vacancy void of 4.5 months, unrecovered operating expenses during the vacancy and costs associated with leasing.

Our investment calculations are as follows:

Income Capitalisation	
<b>Net market income</b>	<b>\$536,930</b>
Net Market Income Capitalised	@ 6.50%
<b>Market value- fully leased at market level</b>	<b>\$8,260,466</b>
<b>Capital adjustments</b>	
■ Present Value of Rental Reversions	(\$50,330)
■ Present Value of Initial Vacancy Void	(\$138,109)
■ Leasing Costs	(\$16,446)
■ Present Value of OPEX During Vacancy	(\$16,969)
■ Present Value of Short Term Capital Expenditure	(\$14,085)
<b>Total capital adjustments</b>	<b>(\$235,940)</b>
<b>Capital items</b>	
■ Allowance for Covid-19 rental rebates (2 months @ 50%)	(\$34,159)
■ Rental inducements on vacant tenancies	(\$22,000)
■ Allowance for completion of building works	(\$300,000)
<b>Market value</b>	<b>\$7,668,367</b>
	<b>adopt \$7,670,000</b>

#### Discounted Cash Flow

The Discounted Cash Flow (DCF) method is a variation of the Income Capitalisation Method whereby cash flows are explicitly forecast over a ten-year investment horizon. Allowances are made within the cash flow projection to account for the market's expectation of rental

growth, or where appropriate, structured rental adjustments in accordance with the leases. Deductions for costs associated with property ownership are then made to establish the net annual cash flow. Costs of ownership may include; unrecovered outgoings, vacancy (actual or potential) and capital expenditure.

Having determined the net annual income, we then establish the terminal value of the property based on a hypothetical sale at the beginning of year 11 of the investment horizon, and discount the cash flows at a market based discount rate, as analysed from sales, reflecting the cost of capital, risk and required return. The aggregate of the present value of each cash flow establishes market value via this method.

The method is of particular relevance where cash flows or costs associated with ownership are irregular.

A summary of the key inputs is as follows:

### Income & Expense Growth Forecasts

Our cash flow model commences with the existing rental levels with adjustments made to the income streams reflecting occupational arrangements. Appropriate rentals are adopted at review where there are structured review mechanisms or rental ratchets. Growth forecasts are based on research & analysis completed by TelferYoung with consideration given to economic expectations and market sentiment. Our adopted growth rates are outlined in the summary.

### Capital Expenditure (CAPEX)

In order to maintain the appeal, integrity and ultimately value of an asset, capital expenditure (CAPEX) is required. In this regard we have incorporated allowances for CAPEX explicitly in our cash flow projection when, in our opinion, expenditure will be required.

### Future Vacancy

Where a future vacancy is assumed the new lease will be based on market rent reviews.

### Terminal Capitalisation Rate

In establishing the terminal capitalisation rate we have had regard to anticipated market conditions at that time, locational and physical attributes and lease profile. It should be noted that estimating the long range yield is subjective; it is our forecast of the most likely conditions at that time.

### Discount Rate

The Discount Rate represents the overall rate of return to an investor over a specific investment horizon. We have analysed Discount Rates (Internal Rates of Return) from sales of investment property to establish an appropriate discount rate to apply to the cash flow. In selecting the rate, we have considered the risk associated with the asset and the returns from alternative forms of investment.

We have also conducted sensitivity analysis based on the key variables, terminal yield and the discount rate. This is shown below along with a graph depicting the cashflow assumptions made within this approach.

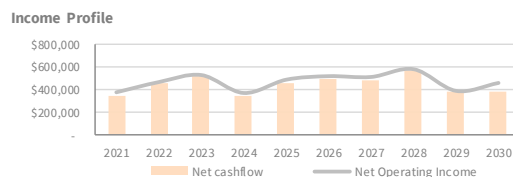
Specific assumptions made are illustrated in the following table:

Discounted Cashflow Method Assumptions										
■ Cashflow Period:	10 years									
■ Growth Forecasts:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
- Secondary Office	0.00%	0.00%	1.00%	1.50%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
- Expenses	0.50%	1.00%	1.50%	1.75%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
■ Capital Expenditure:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	\$15,000	\$15,375	\$15,759	\$16,153	\$16,557	\$16,971	\$17,395	\$17,830	\$18,276	\$18,733
■ Initial Vacancy										
- Tenant 2:	18 months									
- Tenant 7:	18 months									
■ Future Vacancy Allowance										
- Tenant 1:	12 months from June 2023				and			12 months from June 2028		
- Tenant 2:	9 months from September 2030									
- Tenant 3:	9 months from December 2025				and			9 months from September 2030		
- Tenant 5:	9 months from March 2023									
- Tenant 6:	9 months from March 2029									
- Tenant 7:	9 months from September 2024				and			9 months from July 2028		
■ Leasing Commissions:	17.00%									
■ Annual Net Cashflow:										
- Period End:	Mar-2021	Mar-2022	Mar-2023	Mar-2024	Mar-2025	Mar-2026	Mar-2027	Mar-2028	Mar-2029	Mar-2030
- Net Cashflow	\$346,865	\$452,369	\$513,709	\$345,488	\$450,917	\$491,932	\$477,792	\$562,602	\$372,458	\$384,076
■ Terminal Capitalisation Rate:	7.00%									
■ Discount Rate:	6.75%									

We summarise our valuation via this method below:

Discounted Cash Flow Method											
Year ending	Mar-2021 Year 1	Mar-2022 Year 2	Mar-2023 Year 3	Mar-2024 Year 4	Mar-2025 Year 5	Mar-2026 Year 6	Mar-2027 Year 7	Mar-2028 Year 8	Mar-2029 Year 9	Mar-2030 Year 10	Mar-2031 Year 11
<b>Rental Income</b>											
▪ Fire & Emergency - Suites 1 & 2	\$101,249	\$103,042	\$103,640	\$25,910	\$94,183	\$125,577	\$129,220	\$130,435	\$32,609	\$103,985	-
▪ Vacant 1 - Suite 3	-	\$18,168	\$36,335	\$36,677	\$37,074	\$37,727	\$38,435	\$39,212	\$39,988	\$40,796	-
▪ BONZ - Suite 4	\$95,854	\$98,566	\$101,284	\$104,008	\$106,818	\$81,827	\$51,345	\$102,691	\$104,677	\$106,663	-
▪ PMG Funds - Suite 5	\$110,601	\$112,302	\$112,579	\$111,122	\$113,344	\$115,420	\$117,153	\$119,496	\$121,886	\$124,323	-
▪ Vision Consulting - Suite 6	\$35,567	\$60,972	\$61,023	\$20,726	\$62,351	\$62,967	\$64,816	\$65,471	\$56,196	\$29,137	-
▪ The Property Group - Suite 7	\$52,095	\$53,136	\$54,199	\$53,470	\$54,294	\$55,380	\$56,487	\$57,617	\$58,769	\$20,108	-
▪ Vacant 2 - Suite 8	-	\$30,204	\$60,409	\$60,977	\$35,993	\$47,688	\$63,585	\$65,511	\$22,051	\$62,883	-
<b>Total income</b>	<b>\$395,366</b>	<b>\$476,390</b>	<b>\$529,468</b>	<b>\$412,889</b>	<b>\$504,056</b>	<b>\$526,586</b>	<b>\$521,042</b>	<b>\$580,432</b>	<b>\$436,176</b>	<b>\$487,895</b>	<b>-</b>
<b>Operating Expenses</b>											
▪ Less Opex During Vacancy	(\$17,054)	(\$8,646)	-	(\$40,640)	(\$15,243)	(\$6,871)	(\$8,393)	-	(\$45,442)	(\$27,619)	-
<b>Total operating expenses</b>	<b>(\$17,054)</b>	<b>(\$8,646)</b>	<b>-</b>	<b>(\$40,640)</b>	<b>(\$15,243)</b>	<b>(\$6,871)</b>	<b>(\$8,393)</b>	<b>-</b>	<b>(\$45,442)</b>	<b>(\$27,619)</b>	<b>-</b>
<b>Net operating income</b>	<b>\$378,311</b>	<b>\$467,744</b>	<b>\$529,468</b>	<b>\$372,249</b>	<b>\$488,813</b>	<b>\$519,715</b>	<b>\$512,649</b>	<b>\$580,432</b>	<b>\$390,734</b>	<b>\$460,276</b>	<b>-</b>
<b>Leasing &amp; Capital Expenses</b>											
▪ Commissions	(\$16,446)	-	-	(\$10,608)	(\$21,338)	(\$10,812)	(\$17,462)	-	-	(\$57,467)	-
▪ Refurbishment / upgrade allowance	(\$15,000)	(\$15,375)	(\$15,759)	(\$16,153)	(\$16,557)	(\$16,971)	(\$17,395)	(\$17,830)	(\$18,276)	(\$18,733)	-
<b>Total leasing &amp; capital expenses</b>	<b>(\$31,446)</b>	<b>(\$15,375)</b>	<b>(\$15,759)</b>	<b>(\$26,761)</b>	<b>(\$37,896)</b>	<b>(\$27,783)</b>	<b>(\$34,858)</b>	<b>(\$17,830)</b>	<b>(\$18,276)</b>	<b>(\$76,200)</b>	<b>-</b>
<b>Net cashflow</b>	<b>\$346,865</b>	<b>\$452,369</b>	<b>\$513,709</b>	<b>\$345,488</b>	<b>\$450,917</b>	<b>\$491,932</b>	<b>\$477,792</b>	<b>\$562,602</b>	<b>\$372,458</b>	<b>\$384,076</b>	<b>-</b>
<b>Reversionary value</b>											
▪ Net Market Cashflow at Period End											\$621,000
▪ Capitalised At Terminal Yield of: 7%											\$8,871,429
▪ Less PV Rent Shortfall To Market Rental Reversion											(\$55,812)
▪ Less Disposal Costs of: 0%											-
<b>Net reversionary value</b>											<b>\$8,815,617</b>
<b>Net present value of net cash flows</b>	\$3,205,826										
<b>Present value of terminal value</b>	\$4,562,573										
<b>Capital items</b>											
▪ Allowance for Covid-19 rental ret	(\$34,159)										
▪ Rental inducements on vacant te	(\$22,000)										
▪ Allowance for completion of buil	(\$300,000)										
<b>Indicated market value</b>	\$7,412,240										
<b>adopt</b>	<b>\$7,410,000</b>										

Discounted cash flow summary	
PV of Net Income:	\$3,205,826
PV of Terminal Value:	\$4,562,573
Total Net Present Value:	\$7,768,400
Disposal Costs:	-
Capital Items:	(\$356,159)
<b>Adopted value (via this method):</b>	<b>\$7,410,000</b>



**Sensitivity analysis**

Discount Rate	Terminal Yield		
	6.75%	7.00%	7.25%
6.50%	\$7,730,267	\$7,556,145	\$7,394,031
6.75%	\$7,582,294	<b>\$7,412,240</b>	\$7,253,914
7.00%	\$7,437,808	\$7,271,718	\$7,117,083

### 13.2.2 Market Approach

The Market Approach provides an indication of value by comparing the asset with identical or similar assets for which price information is available. In this regard, we have considered the Comparable Transactions method to value. In assessing value via this method, a unit of comparison that is used by market participants is first identified to establish valuation metrics, and then comparative analysis of qualitative and quantitative similarities and differences between the comparable sales and the subject is performed. The analysed valuation metrics are then applied to the subject establish the market value.

Direct comparison using the Comparable Transactions Method is considered to be one of the best methods of valuation however seldom are any two properties directly comparable due to differences in age, floor area, quality, location, lease terms and cash flows.

With the Market Approach we have considered sales of existing buildings and, from the sale price, deducted allowances for land value and other improvements associated with the sale property. This leaves a residual sum for the main building(s) which is divided by the floor area(s) to arrive at a building rate per square metre. The rates analysed from the sales evidence are then considered in comparison with the subject property and the reverse exercise undertaken.

Our calculations are as follows:

Component	Area	Rate	Total
<b>Buildings</b>			
Building	2374.2 m <sup>2</sup>	@ \$2,000 per m <sup>2</sup> =	\$4,748,400
<b>Total buildings value</b>			<b>\$4,748,400</b>
<b>Other improvements</b>			
Site development			\$35,000
<b>Total other improvements value</b>			<b>\$35,000</b>
<b>Land</b>			
Land area of	1649 m <sup>2</sup>	@ \$2,000 per m <sup>2</sup> =	\$3,298,000
<b>Total land value</b>			<b>\$3,298,000</b>
<b>Other items</b>			
Allowance for completion of refurbishment works			-\$300,000
<b>Total other items value</b>			<b>-\$300,000</b>
<b>Market value</b>			\$7,781,400
		<b>Adopt</b>	<b>\$7,780,000</b>

### 13.3 VALUATION SUMMARY

Method	Value
Income Capitalisation	\$7,670,000
Discounted Cash Flow	\$7,410,000
Market Approach	\$7,780,000
<b>Adopted Market Value</b>	<b>\$7,600,000</b>

With income producing properties of a commercial nature such as this, most emphasis should be placed on the income capitalisation approach as it is market orientated and further it is the income able to be generated from a property in the way of it's lease rental which is of paramount interest to an investor. Therefore the value of this type of property is most properly influenced by it's rental capacity.

We note that the Discounted Cash Flow (or DCF) approach also uses income generation potential to assess a value. However, this approach is subjective to the inputs used in building the DCF spreadsheet and therefore we have given less weighting to this, than to the Income Capitalisation approach. Nonetheless, it does account for the current under leasing at the subject property in an efficient way.

In this instance the income approaches are below the remaining approaches. We consider that this is due to the property not being fully leased at market rental levels.

Based on our adopted value, the following investment benchmarks are indicated:

<b>Yield on passing income</b>	5.44%
<b>Yield on market income</b>	7.06%
<b>Equivalent yield</b>	6.55%
<b>Resultant IRR</b>	6.42%

The Market Value can be apportioned as follows:

Land	Improvements	Market Value
\$3,300,000	\$4,300,000	\$7,600,000

### 13.4 CONTRACT FOR SALE

We are not aware of any sale and purchase agreement in place for the subject property.

### 13.5 PREVIOUS SALE DETAILS

\$4,850,000 in September 2016. This was prior to the complete internal re-fit.

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## 14.0 STATEMENT OF LIMITING CONDITIONS AND VALUATION POLICY

### **Purpose**

This valuation report has been completed for the specific purpose stated. No responsibility is accepted in the event that this report is used for any other purpose.

### **Responsibility to third party**

Our responsibility in connection with this valuation is limited to the client to whom the report is addressed and to that client only. We disclaim all responsibility and will accept no liability to any other party without first obtaining the written consent of TelferYoung (Tauranga) Limited and the author of the report. TelferYoung (Tauranga) Limited reserves the right to alter, amend, explain or limit any further information given to any other party.

### **Reproduction of report**

Neither the whole nor any part of this valuation and report or any reference to it may be included in any published document, circular or statement without first obtaining our written approval of the form and context in which it may appear. Our report is only valid when bearing the Valuer's signature.

### **Date of valuation**

Unless otherwise stated, the effective date of the valuation is the date of the inspection of the property. This valuation is current as at the date of valuation only. 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 the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 3 months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

### **Legislation**

We have not obtained a Land Information Memorandum (LIM) or Property Information Memorandum (PIM) for this property which, unless otherwise stated, is assumed to conform to all requirements of the Resource Management Act 1991, the New Zealand Building Code contained in the First Schedule to the Building Regulations 1992, the Building Act 2004 and any Historic Places Trust registration. Our valuation reports are prepared on the basis that properties comply with all relevant legislation and regulations

and that there is no adverse or beneficial information recorded on the Territorial Local Authority (TLA) property file, unless otherwise stated. Legislation that may be of importance in this regard includes the Health & Safety at Work Act 2015, the Fire Safety and Evacuation of Buildings Regulation 1992, and the Disabled Persons Community Welfare Act 1975.

### **Registrations**

Unless otherwise stated, our valuation is subject to there being no detrimental or beneficial registrations affecting the value of the property other than those appearing on the title. Such registrations may include Waahi Tapu and Heritage New Zealand registrations.

### **Reliability of data**

The data and statistical information contained herein was gathered for valuation purposes from reliable, commonly utilised industry sources. Whilst we have endeavoured to ensure that the data and information is correct, in many cases, we cannot specifically verify the information at source and therefore cannot guarantee its accuracy.

### **Assumptions**

This report contains assumptions believed to be fair and reasonable at the date of valuation. In the event that assumptions are made, based on information relied upon which is later proven to be incorrect, or known by the recipient to be incorrect at the date of reporting, TelferYoung (Tauranga) Limited reserves the right to reconsider the report, and if necessary, reassess values.

### **GST**

The available sources of sales data upon which our valuation is based generally do not identify whether or not a sale price is inclusive or exclusive of GST. Unless it has been necessary and possible to specifically verify the GST status of a particular sale, it has been assumed that available sale price data has been transacted on a plus GST (if any) basis, which is in accordance with standard industry practice for most commercial property. Should this interpretation not be correct for any particular sale or rental used as evidence, we reserve the right to reconsider our valuation.

### **Land survey**

We have made no survey of the subject property and assume no responsibility in connection with these matters. Unless otherwise stated, the valuation has been assessed conditional upon all improvements being within the title boundaries.

Unless otherwise stated, we have not undertaken investigations or been supplied with geotechnical reports with respect to the nature of the underlying land. Unless otherwise stated, the valuation has been assessed conditional upon the land being firm and suitable ground for the existing and/or potential development, without the need for additional and expensive foundation and retaining work or drainage systems.

### **Contamination**

We have not undertaken an environmental audit of the property. Unless otherwise stated, our valuation and report is conditional upon the land and buildings being unaffected by harmful contaminants or noxious materials which may impact on value. Verification that the property is free from contamination and has not been affected by noxious materials should be obtained from a suitably qualified environmental expert.

### **Not a structural survey**

Our inspection has been undertaken for valuation purposes only, and does not constitute a structural survey. Verification that the building is sound should be obtained from a suitably qualified building engineer. If the building is found to be unsound, this finding/new information is likely to impact on the value of the property.

### **Earthquake-prone buildings**

We are aware that a number of buildings are, or may be potentially, affected by local territorial authority policies for 'earthquake-prone' buildings (Earthquake-Prone Building Policies) required to be in place under the Building Act 2004. The Earthquake-Prone Building Policies may require building owners to undertake engineering investigations and subsequent structural upgrading, demolition or other steps to meet the requirements of the Earthquake-Prone Building Policies. Unless otherwise stated, our valuation makes no allowance for any costs of investigation, upgrading, demolition or other steps which may be incurred by the building owner to meet the requirements of Earthquake Prone Building Policies. We are not qualified to determine the 'earthquake-prone' status of the buildings. Our valuation is therefore subject to a review, investigation and assessment of seismic performance of the building, by a suitably qualified building engineer, to determine the

'earthquake-prone' status of the building and where required, an estimate of any costs for structural upgrading, demolition or other steps required for the building to meet the requirements of Earthquake-Prone Building Policies. If the building is found to be 'earthquake-prone', this finding is likely to impact on the value of the property, and our valuation may materially alter as a result.

### **Systems**

Our valuation has been assessed conditional upon all hot and cold water systems, electric systems, ventilating systems and other devices, fittings, installations or conveniences, including lifts and escalators where appropriate, as are in the building, being in proper working order and functioning for the purposes for which they were designed.

### **Market valuations**

Market valuations are carried out in accordance with the Valuation Standards and Guidance Notes. Market Value is defined "The estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

No allowances are made in our valuations for any expenses of realisation, or to reflect the balance of any outstanding mortgages either in respect of capital or interest accrued thereon.

### **Mortgage recommendation**

Where an intending lender, by way of either general policy requirements or specific instruction, has required that a mortgage recommendation be provided in the valuation report, we have included a specific recommendation as to the suitability of the property as a security and the maximum loan as an amount or percentage of value. The valuation report has also included comment on commonly known, readily ascertainable and/or reasonably foreseeable property-specific and market factors as are relevant to the market value and marketability, to assist in informing the lender.

We note that the valuation provided in this report is our opinion of the market value, as at the valuation date, on a willing buyer/willing seller basis and does not allow for the potential consequences and costs of a forced sale. The value may change in the future because of market conditions and changes to the state of the subject property.

### **Water leaks and penetration effects**

We are aware that a number of buildings have developed problems associated with water leaks, water penetration, weather-proofing, moisture and water exit control systems, mould, fungi, mildew, rot, decay, gradual deterioration, microorganisms, bacteria, protozoa or like forms. Problems can result from defects in design, construction methods and materials used, or any combination of defects.

Our valuation has been assessed conditional upon all buildings and structures being constructed strictly in accordance with recommended practices and free from defect unless otherwise stated. We are not qualified to undertake, nor have we undertaken, a structural survey of the buildings or structures. We accept no liability for any defects that may arise as a result of poor building design, construction methods or building materials. If you have any concerns, you should engage a suitably qualified person to report on this matter. Defects revealed by a suitably qualified expert may affect the value of the property.

### **Leases**

The interpretation of leases or other contractual agreements referred to in this report is solely the opinion of the author and should not be construed as a legal interpretation. Furthermore, summaries of contractual agreements which may appear in the report or appendices, are presented for the sole purpose of giving the reader an overview of the salient facts thereof.

### **Tenancies**

Unless specifically requested, we do not make detailed enquiries into the covenant strength of occupational tenants but rely on our judgement of the market perception of them. Unless otherwise advised, our valuation has been assessed subject to the tenant being independent of the owner and capable of meeting all financial obligations under the lease, and that there are no arrears of rent or undisclosed breaches of covenant. Further, our valuation is conditional upon all rents referred to in this report representing the rental arrangement stipulated in the contractual agreements pertaining to the tenant's occupancy, to the extent that such rents have not been prepaid, abated or inflated to reflect extraordinary circumstances, unless such conditions have been identified and noted in this report.

### **Professional indemnity cover**

We have in force at the time of supplying the above valuation, current professional negligence insurance appropriate to the nature and level of our business activities. The Registered Valuer is covered by the policy.

### **Valuer's statement**

This report has been undertaken by Cameron Forlong under the supervision of Paul Higson who has inspected the property and reviewed the report, methodology and workings. Both valuers have inspected the property externally and internally. The Registered Valuer holds an Annual Practising Certificate.

Please contact the writer should you wish to discuss any matters raised in this report.

Yours faithfully

**TelferYoung (Tauranga) Limited**



Cameron Forlong - B Prop  
Valuer

Email: cameron.forlong@telferyoung.com



Paul Higson - B.Comm (VPM) ANZIV MPINZ  
Registered Valuer  
Director

Email: paul.higson@telferyoung.com

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# APPENDIX

# APPENDIX A RECORD OF TITLE



**RECORD OF TITLE  
UNDER LAND TRANSFER ACT 2017  
FREEHOLD**  
Search Copy



**Identifier** 681802  
**Land Registration District** South Auckland  
**Date Issued** 19 December 2014

**Prior References**

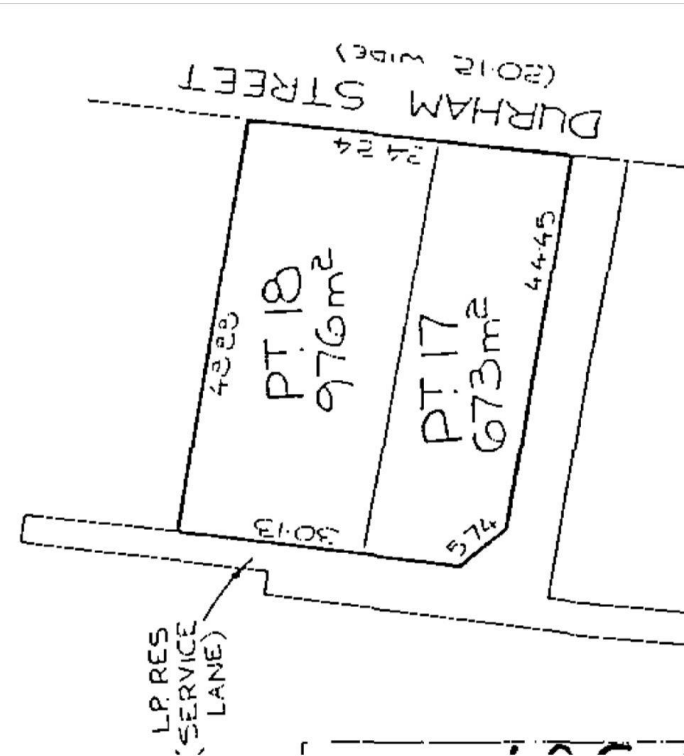
491928	491929	SA56B/800
SA56B/805	SA56B/806	SA56B/807
SA56B/808	SA56B/809	SA56B/810
SA56B/812	SA56B/813	SA56C/681
SA56D/306	SA56D/307	

**Estate** Fee Simple  
**Area** 1649 square metres more or less  
**Legal Description** Part Lot 17-18 Deposited Plan 17

**Registered Owners**  
PMG Direct Office Fund Trustees Limited

**Interests**  
H767162.2 CERTIFICATE PURSUANT TO SECTION 643(2) LOCAL GOVERNMENT ACT 1974 - 8.12.1987 AT 9.40 AM  
10634265.12 Mortgage to ASB Bank Limited - 14.12.2016 at 4:05 pm

Identifier 681802



## APPENDIX B ADDITIONAL PHOTOGRAPHS



# APPENDIX C PLANNING MAP



# NATIONWIDE

## NATIONAL OFFICE

TelferYoung Limited  
L5, 55 Shortland Street  
PO Box 105553, Auckland City 1143

### TelferYoung (Northland) Limited

17 Hatea Drive  
PO Box 1093, Whangarei 0140  
**E** northland@telferyoung.com  
**T** +64 9 438 9599

### TelferYoung (Auckland) Limited

L7, 52 Swanson Street  
PO Box 5533, Auckland 1142  
**E** auckland@telferyoung.com  
**T** +64 9 379 8956

218 Lake Road, Northcote  
PO Box 36030, North Shore City 0748  
**E** northshore@telferyoung.com  
**T** +64 9 480 2330

### TelferYoung (Waikato) Limited

7 London Street  
PO Box 616, Waikato Mail Centre, Hamilton 3240  
**E** waikato@telferyoung.com  
**T** +64 7 839 2030  
+64 7 871 5032 (Te Awamutu)  
+64 7 889 5990 (Morrinsville)  
+64 7 827 2030 (Cambridge)

### TelferYoung (Tauranga) Limited

L2, 49-51 The Strand  
PO Box 455, Tauranga 3144  
**E** tauranga@telferyoung.com  
**T** +64 7 578 4675

81 Jellicoe Street, Te Puke 3119  
**E** tauranga@telferyoung.com  
**T** +64 7 573 8220

### TelferYoung (Rotorua) Limited

1243 Ranolf Street  
PO Box 2121, Rotorua 3040  
**E** rotorua@telferyoung.com  
**T** +64 7 348 1059

### TelferYoung (Taranaki) Limited

143 Powderham Street  
PO Box 713, New Plymouth 4340  
**E** taranaki@telferyoung.com  
**T** +64 6 757 5753

### TelferYoung (Hawkes Bay) Limited

25 Pandora Road  
PO Box 572, Napier 4140  
**E** hawkesbay@telferyoung.com  
**T** +64 6 835 6179  
7 Gladstone Road, Gisborne 4010  
**E** hawkesbay@telferyoung.com  
**T** +64 6 868 8596

### TelferYoung (Wellington) Limited

L4, 94 Dixon Street, Wellington 6011  
**E** wellington@telferyoung.com  
**T** +64 4 472 3683

### TelferYoung (Nelson Marlborough) Limited

L3, 105 Trafalgar Street  
PO Box 621, Nelson 7040  
**E** nelson@telferyoung.com  
**T** +64 3 546 9600

L1, 1 Hutcheson Street, Blenheim 7201  
**E** nelson@telferyoung.com  
**T** +64 3 577 6060

### TelferYoung (Canterbury) Limited

L1, 58 Armagh Street  
PO Box 2532, Christchurch 8140  
**E** canterbury@telferyoung.com  
**T** +64 3 379 7960

17 Dee Street  
Timaru 7910  
**E** canterbury@telferyoung.com  
**T** +64 3 687 1220

L1, 130A Percival Street  
PO Box 138, Rangiora 7440  
**E** rangiora@telferyoung.com  
**T** +64 3 313 5355

### TelferYoung (Otago) Limited

L3, 8 The Octagon  
PO Box 497, Dunedin 9054  
**E** otago@telferyoung.com  
**T** +64 3 477 5796

### TelferYoung (Southland) Limited

135 Spey Street  
PO Box 370, Invercargill 9840  
**E** southland@telferyoung.com  
**T** +64 3 218 4299  
23 Medway Street  
PO Box 334, Gore 9740  
**E** southland@telferyoung.com