

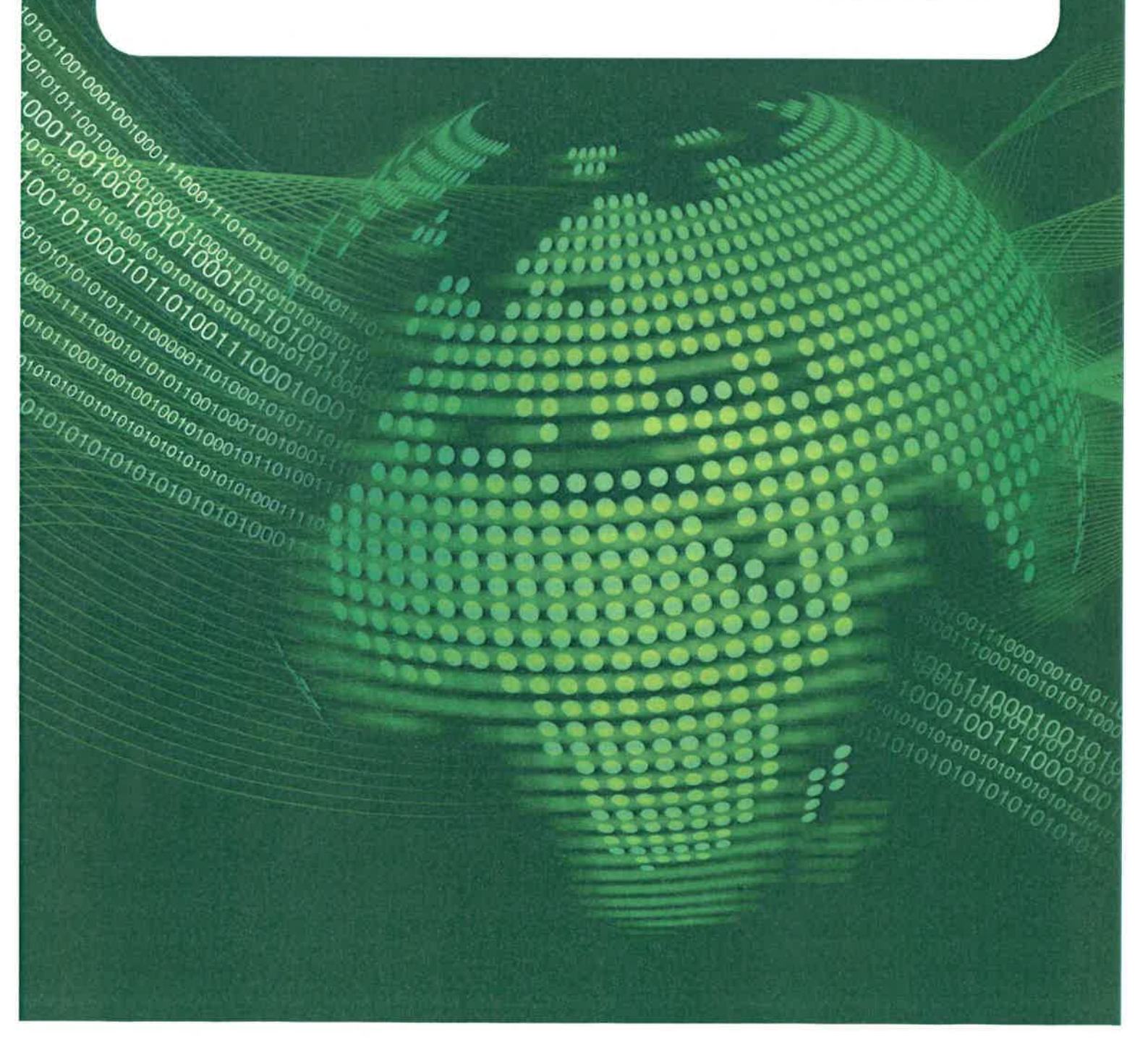
VALUATION REPORT

Proposed Airways Premise Development – ‘As If Complete’
20-26 Sir William Pickering Drive
Canterbury Technology Park, Burnside
Christchurch

Instructed By: Augusta Funds Management Limited

Date of Valuation: 16 November 2017

CBRE





Andy Herd Building - 20 Sir William Pickering Drive



ADC 1 Building - 26 Sir William Pickering Drive



ADC 2 Building - 26 Sir William Pickering Drive

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APPENDICES

Appendix I Copy of Current Computer Freehold Register Searches

VALUATION SUMMARY

Property:	Proposed Airways Premise Development - 'As If Complete' 20-26 Sir William Pickering Drive Canterbury Technology Park, Burnside Christchurch
Instructed By:	Mr Stephen Brown-Thomas Augusta Funds Management Limited PO Box 37953 Parnell 1151 Auckland
Purpose: Interest Valued:	Proposed Redevelopment Due Diligence Freehold
Basis of Valuation:	Market Value - 'As If Complete' and subject to new lease structure
Registered Owner: Land Area: Resource Management:	Airways Nominee Limited 17,313 sqm (Combined Titles) CO (Commercial Office) under the Christchurch District Plan
Brief Description - As Is:	<p>As is, the asset comprises a substantial suburban office holding offering two separate buildings over two titles including a mix of refurbished and modern office accommodation with some specialised areas. The property is situated within Canterbury Technology Park, an established business park positioned to the north-western fringe of Christchurch City.</p> <p>The Andy Herd Building to the northern part of the site was originally constructed in the circa late 1980's with subsequent additions and refurbishment. To the southern portion of the site are two adjoining buildings known as the ADC 1 & 2 which were constructed in two stages and completed mid 2007. We have been advised the various buildings have seismic ratings in the range of 70% - 74% NBS which exceeds minimum accepted standards by market participants.</p>
Proposed Development:	To the rear south-west corner of the site and recessed from the street frontage (presently open carparking), it is proposed to construct a two level, base isolated structure that offers ground level plant and first level accommodation comprising a flight control centre as part of Airways national operation. This new building is referred to herein as ATC, being a specialised asset. The nature of the use is of national importance to the air traffic network, hence the building's resilience to 100% NBS IL4 design with redundancy provisions, the intent to maintain operations during any future event such as a natural disaster. This is a specialist asset. Balance site landscaping will also be altered to accommodate the new structure including provisioning for 237 car parking spaces.
Tenancy Profile:	<p>The existing core lease terms will be maintained however subject to important variations to facilitate the new development to occur. The key terms include a 25 year lease term with 10 year renewal right pertaining to ADC 1 & 2 and the new ATC Building with annual 2% pa rent growth, market reviews at year 10 and 5 yearly thereafter with a 10% cap/collar. The Andy Herd building will be subject to a 10 year lease together with a single 6 year renewal right, the same rent review structure being applicable, however with the market reviews scheduled at 5 yearly intervals. The contract rent will equate \$2,453,884 pa plus GST comprised of \$1,934,375 pa to ADC 1 & 2 and the new ATC Building, and \$519,509 pa to the Andy Herd Building. In addition will be a \$180,000 pa improvement rent that will remain fixed over the 25 year lease term. The lease is struck on a net basis however excludes the recovery of management expenses that pragmatically apply for a property of this nature.</p> <p>Airways Corporation New Zealand Limited is a Government owned entity, therefore affording excellent tenant covenant. Combined with the length of lease security (WALT of 21.83 years) and cashflow growth profile, the overall tenancy profile (by direct comparison to any alternative commercial property proposition) is a superior and highly desirable investment attribute.</p>
Net Lettable Area: Car Parking:	8,743.6 sqm 237 car parking bays (reflecting 1 car bay per 36.9 square metres of lettable area).

Last Sale: There is no previous sale transaction applicable 'as if complete'.

Valuation Approaches: Capitalisation Approach & DCF Analysis

Date of Valuation: 15 November 2017

Valuation: Market Value - 'As If Complete' and subject to new lease structure
\$41,225,000
(Forty One Million, Two Hundred and Twenty Five Thousand Dollars)
This valuation is prepared on the basis of plus GST (if any).

Assumptions, Disclaimers, Limitations & Qualifications Summary: This valuation report is provided subject to the assumptions, disclaimers, limitations and qualifications detailed both throughout this report and within the Assumptions, Disclaimers, Limitations & Qualifications section of this report. Reliance on this report and extension of our liability is conditional upon the reader's acknowledgement and understanding of these statements. This valuation is for the use only of the party to whom it is addressed and for no other purpose. No responsibility is accepted to any third party who may use or rely on the whole or any part of the content of this valuation.

Prepared By: CBRE Limited



Principal Valuer
Scott Ansley ANZIV, SPINZ
Registered Valuer
Associate Director - Valuation & Advisory Services



Co-Signing Director*
Marius Ogg FNZIV, FPINZ
Registered Valuer
Director - Valuation & Advisory Services

Property Inspection: Yes
Job Involvement: Principal Valuer

Yes
Co-Signatory in capacity of Director*

* The Co-Signing Director (reviewer of report) verifies that the report is genuine and endorsed by CBRE however the opinion of value expressed has been arrived at by the Principal Valuer alone.

EXECUTIVE SUMMARY

Valuation Reconciliation		
Capitalisation Approach:	Assessed Value:	41,150,000
	Capitalisation Rate:	6.00%
Discounted Cash Flow Approach:	Assessed Value:	41,300,000
	Target IRR:	6.25%
	Terminal Yield	6.75%
ADOPTED VALUE		41,225,000
	Net Premise Rent (Exl Mgmt):*	\$2,433,884
	Fitout Rent:	\$180,000
	Overall Passing Income:	\$2,613,884
	Overall Passing Yield:	6.34%
	Added Value Fitout Rent (PV) SAY:	\$2,225,000
	Resultant Core Property Value:	\$39,000,000
	Core Property Analysis	
	Initial Yield:	6.24%
	Indicated Equivalent Yield:	5.99%
	Yield on Market Income:	5.45%
	Indicated IRR:	6.27%
	Capital Value Rate (\$psm):	\$4,460
	WALT (Years):	21.83

Because of the significant influence of the improvements rent, we consider the concluded value is best stated between the core property and the additional cash flow benefit of the improvements rent.

* For clarity, the net rent adopted reflected the contract rent of \$2,633,884 less a non-recovered management expense allowance of \$20,000 pa.

The concluded market value of \$41.225 million is comprised of \$2.225 million pertaining to the present value benefit of the improvements rent, whilst the residual \$39.0 million refers to the core property and its lease structure.

The key metric, and what is foremost in any investor’s mind is the passing yield, this being 6.24% on the base premises. This reflects the nature of the property and more particularly the lease security and rent growth provisions of the lease. We are cognisant the yield on market rent at 5.45% appears low by comparison to the transactional evidence however, given the length of lease and growth provisions, this metric is not as prevalent in the end valuation reconciliation as would normally apply.

SWOT ANALYSIS, RISK ASSESSMENT, INVESTMENT CONSIDERATIONS

MARKET RISK COMMENT

Key metrics derived from analysis of property transactions during recent quarters indicate the market in terms of yield parameters is now at benchmark levels. Interest rates are low by historic standards. This coupled with low inflation means investor sentiment towards property assets has been buoyant. These factors, taken together with generally lower returns or greater risk/volatility delivered by alternative investment classes has resulted in yield compression and subsequent inflation of commercial property values. Notwithstanding confidence in property, there is some prospect of international borrowing costs for New Zealand banks increasing, which threatens the sustainability of the current low interest rate regime.

Our observation of the current market is that participants are not presently discounting commercial property for risk of market correction and whilst currently there are no material indicators to suggest a discontinuation of momentum, other than for threat of rising vacancy / rent softening in the office sector, it follows that a deterioration in economic conditions in the future is likely to be reflected in market sentiment for commercial property. Should this occur, then the market value of this asset (or indeed commercial assets in general) could soften at such time. We therefore recommend this inherent market risk factor be considered in any lending or investment decisions.

STRENGTHS & OPPORTUNITIES

~ Positive attributes the envisaged purchaser type would consider:

- Canterbury Technology Park is a reasonable suburban office location underpinned by proximity to Christchurch International Airport.
- Being a Government owned entity, the market perception of Airways as tenant covenant is excellent.
- Excellent lease security (WALT of 21.83 years) and rent growth profile, superior to any alternative commercial property proposition in the local market.
- Good quality, well presented standard of improvements with excellent onsite carparking provision.
- 70% - 74% NBS seismic ratings to the existing buildings, 100% NBS (IL4 Equivalent) applicable to the ATC building.
- The tenant has significant infrastructure invested in the property, therefore a measure of captivity applies by virtue of alternative cost of relocation.
- Present low interest rate environment appears sustainable into the short term at least.
- Good investment demand for properties where all key investment criteria are in place.

WEAKNESSES & THREATS

~ Negative attributes the envisaged purchaser type would consider:

- Value quantum of the asset in the local market potentially reducing potential purchaser pool.
- The suburban office market is subject to increasing pressure from rising vacancy levels combined with a narrow pool of occupiers seeking space with it accepted this is now placing pressure on achievable rental levels across the market with incentives now increasingly prevalent. Following on, threat of market dynamics continuing to erode realisable rental for suburban office assets in general.
- Investors are highly cognisant of the above market dynamic, the majority disregarding the asset category. In this instance however, the length of lease security and rent growth profile of the asset mitigates these risks to the point where the asset is indeed desirable.
- The contract rental is above market by circa 12.5%, however the valuation impact is offset by the length of lease term and review structure. Alternatively put, the relativity of market rent becomes of less consequence.
- Reversionary risk surrounding the Andy Herd building given the 10 year lease term structure and subsequent vacancy/re-leasing and refurbishment cost risk at this juncture. A 10 year term is however acceptable for this asset in isolation.
- Our valuation is effective 15 November 2017 and comprises elements of present value benefit of both contract rent premium and terminating improvements rent.
- Highly specialised nature of the proposed ATC building and difficulty in re-leasing at a rental commensurate with its specialisation if vacant.
- Longer term, potential threat of changing technology rendering Airways business need for the asset obsolete
- Threat of some market initial uncertainty surrounding the new coalition Government and any material changes that could occur as a consequence. Commentators are of mixed views, although general consensus is somewhat 'business as usual' with respect to the commercial property market.

- Property markets are potentially at or approaching cyclical peaks, with downside risk in the event of economic downturn, although there are no specific indicators to suggest the same. As such, any changes to the current economic climate, not least upward movement in borrowing costs (balanced against the Reserve Bank mandate to maintain stimulus in the economy), could expose current investment pricing and see value erosion to this and other commercial property investment.
- It is increasingly apparent that major lenders are taking a more conservative stance on property lending, particularly development funding. Whilst at this early juncture it is difficult to ascertain any direct impact on property values, it is likely that any significant change to bank lending criteria will have an effect on the market. This potential volatility should be borne in mind by reliant parties.

Note: Our observations within the SWOT Analysis/Risk Assessment and the body of this report provide our opinion of the property as at the date of valuation. This opinion has been based on many factors including our research data and knowledge of the property market and reflects the nature and standard of the property, inherent characteristics and current market conditions. While it is impossible to predict with any degree of accuracy future trends, we have endeavoured to provide the likely short to medium term performance prospects for the property on the basic assumption that future market and economic conditions do not vary from those that existed at the date of valuation. Due to the periodic volatility of the property market brought about by various factors including changing economic and market conditions, caution must be exercised when referring to envisaged future trends, as these cannot be guaranteed.

CRITICAL ASSUMPTIONS

Our valuation proceeds on the basis of the following critical assumptions:

- The valuation ‘as if complete’, is provided on the basis that the proposed ATC Building, and balance site works have been completed in accordance with the plans and specifications as provided to us in a professional manner. It is also provided on the basis that all necessary building and planning approvals are in place and will be observed during construction. The valuation proceeds on the basis that Code Compliance will be issued by Christchurch City Council, upon completion of the works.
- The subject property ‘as is’ is subject to an existing lease between Airways Nominee Limited as Landlord and Airways Corporation of New Zealand Limited as Tenant, same described later in this report. The parties have agreed a revision of key lease terms applicable for the improvements ‘as if complete’. Such key terms are formalised within a Development Agreement dated 22 December 2017. Our valuation proceeds on the basis that the key terms contained within the Development Agreement are subsequently formalised into an appropriate lease document and are fully enforceable ‘as if complete’.
- Part of the new leasing agreement noted above includes the provisioning of cash incentives. For clarity, our valuation proceeds ‘as if complete’ and therefore assumes such incentive costs have been expended and no longer applicable.
- The valuation figure shown in this report is based on the assumption that the underlying land is sound. As Valuers, we are not qualified to assess the stability, load bearing capacity nor integrity of the land and we accordingly give no warranty as to such.
- Augusta Funds Management Limited have advised that the current NBS ratings for the existing buildings onsite lie within the range of 70% - 74% NBS.

Our valuation proceeds on the basis of the level NBS compliance as advised to us. Should a shortfall become apparent, this may affect our valuation conclusion and in this instance the valuation should be referred back to the Valuer for reconsideration.

- We have perused a copy of the Listed Land Use Register (LLUR) by Environment Canterbury (ECAN) and we note the subject property is in part registered on the Hazardous Activities and Industries List (HAIL). This category is for sites for which it is known that an activity or a use as identified in the HAIL has taken place or is currently being undertaken on the site. Various items are noted in the HAIL activities, but there is insufficient information to characterise any risk from those activities undertaken.

26 Sir William Pickering Drive is not listed on the HAIL.

20 Sir William Pickering Drive is listed on the HAIL by reason of activities including storage tanks or drums for fuel, chemicals or liquid waste. The HAIL notes that investigations were completed in November 2007 where a previous storage tank was removed, no areas of soil contamination were identified and the land tested being above accepted criteria for commercial/industrial land use however there continues to be storage tanks or drums onsite. As such, the property is listed on the HAIL by reason of a previous and current use.

Clearly we are not environmental experts, our valuation of necessity proceeding on the basis that the site is free from elevated levels of contamination and as such we have made no allowance in our valuation for any possible site remediation. We recommend those relying on this report be fully cognitive of such facts.

ASSUMPTIONS, DISCLAIMERS, LIMITATIONS & QUALIFICATIONS

Valuation Subject To Change:	Premise 1 - Real estate values vary from time to time in response to changing market circumstances and it should, therefore, be noted that this valuation is based on available information as at the date of valuation. No warranty can be given as to the maintenance of this value into the future. It is, therefore, recommended that the valuation be reviewed periodically.
Our Investigations:	Premise 2 - The valuation is conducted on the basis that we are not engaged to carry out all possible investigations in relation to the property. Where in our report we identify certain limitations to our investigations, this is to enable you to instruct further investigations if you consider this appropriate or we recommend as necessary to allow us to complete the valuation. CBRE is not liable for any loss occasioned by a decision not to conduct further investigations.
Assumptions:	Premise 3 - Assumptions are a necessary part of undertaking valuations/the valuation. CBRE adopts assumptions for the purpose of providing its valuation advice because some matters are not capable of accurate calculation or fall outside the scope of our expertise, or our instructions. The person or entity to whom the report is addressed acknowledges and accepts that the valuation contains certain specific assumptions and as such the person or entity to whom this report is addressed acknowledges and accepts the risk that if any of the assumptions adopted in the valuation are incorrect, then this may have an effect on the valuation.
Information Supplied By Others:	Premise 4 - The valuation contains information which is derived from other sources. Unless otherwise specifically instructed by you and/or stated in the valuation, we have not independently verified that information, nor adopted it as our own, or accepted its reliability. The person or entity to whom the report is addressed acknowledges and accepts the risk that if any of the unverified information/advice provided by others and referred to in the valuation is incorrect, then this may have an effect on the valuation.
Future Matters:	Premise 5 - To the extent that the valuation includes any statement as to a future matter, that statement is provided as an estimate and/or opinion based on the information known to CBRE at the date of this document. CBRE does not warrant that such statements are accurate or correct.
Taxation & GST:	Premise 6 - In preparing our valuations, no allowances are made for any liability which may arise for payment of income tax or any other property related tax, whether existing or which may arise on development or disposal, deemed or otherwise. We also specifically draw your attention to the fact that our valuation has been undertaken on a plus GST (if any) basis.
Site Details:	Premise 7 - A current survey has not been provided. The valuation is made on the basis that there are no encroachments by or upon the property and the person or entity relying upon the valuation should confirm this by obtaining a current survey report and/or advice from a registered surveyor. If any encroachments are noted by the survey report, that person or entity must not rely upon the valuation, before first consulting CBRE to reassess any effect on the value stated in the valuation.
Property Title:	Premise 8 - We have conducted a Certificate(s) of Title search (copy of Computer Freehold Register), and if appropriate and where available, the ground and/or building lease(s) and other relevant tenancy schedules and documents. We have assumed that there are no further easements or encumbrances not disclosed by this title search which may affect market value. However, in the event that the person or entity relying upon the valuation becomes aware of further easements or encumbrances or other pending encumbrances, that person or entity must not rely upon the valuation, before first consulting CBRE to reassess any effect on the valuation.
Environmental Conditions:	Premise 9 - In the absence of an environmental site assessment relating to the subject property, we have assumed that the site is free of elevated levels of contaminants. Our visual inspections of the subject property and immediately surrounding properties revealed no obvious signs of site contamination. Furthermore, we have made no allowance in our valuation for site remediation works. However, it is important to point out that our visual inspection is an inconclusive indicator of the actual condition of the site. We make no representation as to the actual environmental status of the subject property. If a test is undertaken at some time in the future to assess the degree, if any, of contamination of the site and this is found to be positive, we reserve the right to review our valuation assessed herein, should we deem it to be necessary.
Resource Management:	Premise 10 - It is assumed that information provided to us by the relevant Local Authority Town Planning Department is accurate. In the event that a Land Information Memorandum (LIM) report is obtained and the information therein is later found to be materially different to the town planning information detailed within the valuation, we reserve the right to amend the valuation.
Inclusions & Exclusions:	Premise 11 - Where applicable, our valuation includes those items that form (or will form) part of the building service installations such as heating and cooling equipment, lifts, sprinklers, lighting, etc., that would normally pass with the sale of the property, but excludes all items of plant, machinery, equipment, partitions, furniture and other such items which may have been installed (by the occupant) or are used in connection with the business(es) carried on within the property.
Floor Areas:	Premise 12 - Unless stated otherwise in the valuation, we have assumed that the floor areas have been calculated in accordance with the Property Council of New Zealand (PINZ PCNZ) Guide to Measurement of Rentable Areas or as specifically instructed by the party who we have agreed to provide this valuation. We recommend that the person or entity relying upon this report should obtain a survey to determine whether the areas provided differ from PINZ PCNZ guidelines. In the event that

	the survey reveals a variance in areas, then the relevant person or entity should not rely upon the valuation and should provide all relevant survey details to CBRE for consideration and possible review of the valuation.
Condition & Repair:	Premise 13 - We have inspected the building(s), however we have not carried out a structural survey nor tested any of the services or facilities and are therefore unable to state that the building is free from defect. We advise that we have not inspected unexposed or inaccessible portions of the building and are therefore unable to state that these are free from rot, infestation, asbestos or other hazardous and/or contaminated material. Unless otherwise stated in the valuation report, our valuation is based upon the assumption that the building(s) do not have any defects requiring any significant expenditure. Also unless otherwise stated in the valuation report, the valuation assumes that the building complies with all relevant statutory requirements in respect of matters such as health, building and fire safety regulations. If the person or entity relying on the report becomes aware of any information contrary to these assumptions, then they must not rely upon the valuation and that information should be referred to CBRE for consideration and possible review of the valuation, and no reliance should be placed on this valuation until such time as that review has been completed and provided to the person or entity to whom responsibility is accepted for this advice.
Currency:	Premise 14 - All dollars are NZ\$.
API/PINZ Property & International Valuation Standards 2017:	Premise 15 - All valuations are carried out in accordance with the API/PINZ Property and International Valuation Standards 2017 recommended by the Property Institute of New Zealand, where the definition of Market Value is "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 wherein the parties had each acted knowledgeably, prudently and without compulsion". This definition adopted by the Property Institute of New Zealand is that of the International Valuation Standards Council.
Valuation Basis:	Premise 16 - 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.
LIM & PIM:	Premise 17 - Unless otherwise stated, we have not obtained Land Information Memoranda (LIM) or Project Information Memoranda (PIM) from the Territorial Authority.
Tenant's Covenant Strength:	Premise 18 - Unless specifically requested, we do not make detailed enquiries into the covenant strength of occupational tenants but rely on our judgement of the market's perception of them. Any comments on covenant strength should therefore be read in this context. Furthermore, we assume, unless otherwise advised, that the tenant is capable of meeting its financial obligations under the lease and that there are no arrears of rent or undisclosed breaches of covenant.
Site Conditions:	Premise 19 - We do not carry out investigations on site in order to determine the suitability of ground conditions and services, nor do we undertake environmental or geotechnical surveys. Unless notified to the contrary, our valuations are on the basis that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas or other noxious substances. In the case of properties which may have redevelopment potential, we proceed on the basis that the site has load bearing capacity suitable for the anticipated form of redevelopment without the need for additional and expensive foundations or drainage systems, unless stated otherwise.
Not a Structural Survey:	Premise 20 - We state that this is a valuation report, and not a Structural Survey.
Director's Clause:	Premise 21 - Under required circumstances, this report may have been co-signed by a Director of CBRE. In accordance with our internal Quality Assurance procedures, the co-signing Director certifies that he has discussed the valuation methodology and calculations with the prime signatory, however the opinion of value expressed herein has been arrived at by the prime signatory alone. The co-signing Director may or may not have inspected the subject property.

1 INTRODUCTION

1.1 INSTRUCTIONS – SCOPE OF WORKS

We refer to instructions received from Mr Stephen Brown-Thomas of Augusta Funds Management Limited.

We have been requested to assess the market value of the Proposed Airways Premise Development – ‘As If Complete’ located at 20-26 Sir William Pickering Drive, Canterbury Technology Park, Burnside, Christchurch for the purposes possible redevelopment due diligence and, if required, subsequent first mortgage security reliance.

Subsequent, we have been requested to consent to the inclusion of this report within a Product Disclosure Statement (PDS) for the public offer of units in the Sir William Pickering Drive Limited Partnership which Augusta intends to make available to the public and register on the Disclosure Register.

Our report is issued in accordance with the Property Institute of New Zealand Valuation and Property Standards January 2012 Edition (ISBN 0-9975414-0-1) and International Valuation Standards 2017 (ISBN 978-0-9569313-6-8), subject to the assumptions detailed within this report. Where these standards are at variance, International Valuation Standards 2017 apply.

We confirm that our report complies with the parameters of the instructions received subject to the Critical Assumptions detailed within this report. (*Refer Critical Assumptions section.*)

1.2 EXTENSION OF LIABILITY & CONFIDENTIALITY

Our valuation report is valid for 3 months after the date of valuation of 16 November 2017. The valuation report is for the sole use of by Augusta Funds Management Limited. Use by, or reliance upon the valuation report by anyone other than Augusta Funds Management Limited is not authorised by CBRE and CBRE is not liable for any loss or damage arising from such unauthorised use or reliance.

This report is confidential as between CBRE and the instructing party, and any other party to whom CBRE agrees in writing may rely upon the valuation report.

Neither the whole of the report, nor any part of it, may be published in any document, statement, circular or otherwise by any party other than CBRE, nor in any communication with any third parties, without the prior written approval of CBRE of the form and context in which it appears.

1.2.1 CBRE Limited Liability Disclaimer

- (a) CBRE Limited disclaims any liability to any person in the event of an omission from, or false and misleading statements included in the syndication prospectus and brochures, other than in respect to the Full Valuation Report.
- (b) The Full Valuation Report is strictly limited to the matters contained within those documents and are not to be read as extending, by implication or otherwise, to any other matter in the syndication prospectus and brochures. Without limitation to the above, no liability is accepted for any loss, harm, cost or damage (including special, consequential or economic harm or loss) suffered as a consequence of fluctuations in the real estate market subsequent to the date of valuation.

- (c) CBRE Limited has prepared the Full Valuation Report on the basis of, and limited to, the financial and other information (including market information and third party information) is accurate, reliable and complete and confirm that we have not tested the information in that respect.
- (d) Any references to any property value within the PDS has been extracted from a Full Valuation Report prepared for Augusta. The Full Valuation Report draws attention to the key issues and considerations impacting value and provides a detailed assessment and analysis as well as key critical assumptions, assumptions, disclaimers, limitations and qualifications and recommendations. As property investments of this nature are inherently complex and market conditions can be subject to volatility, we require that any extracts must be read in concert with the Full Valuation Report. No responsibility is accepted for any loss or damage arising as a result of reliance upon these extracts.
- (e) The Full Valuation Report may not be reproduced in whole or in part without prior written approval of CBRE Limited.
- (f) We confirm that the Valuer does not have a pecuniary interest that would conflict with a proper valuation of the interest in the property.
- (g) This document is for the sole use of persons directly provided with it by CBRE. Use by, or reliance upon this document by anyone other than those parties named above is not authorised by CBRE and CBRE is not liable for any loss arising from such unauthorised use or reliance.

1.3 ASSIGNMENT

CBRE may, in its absolute discretion, agree that the report may be relied upon by other persons or entities (Assignee), but strictly only on the following bases:

- (i) Any agreement to assign the valuation will be provided by CBRE in writing to the Assignee and on such terms as are agreed to by CBRE;
- (ii) Any assignment of the valuation may only be for reliance upon the valuation for the specific agreed purpose and such reliance can only occur within 3 months after the date of valuation.
- (iii) Any reliance by the Assignee upon the assigned valuation must only be for first mortgage finance purposes (or purpose other than mortgage security as agreed in writing between CBRE and the Assignee);
- (iv) The Assignee understands and accepts that CBRE has not reinspected the property nor undertaken further investigation or analyses as to any changes since the initial valuation, and CBRE accepts no responsibility for reliance upon the assigned valuation other than as a valuation of the property as at the date of the initial valuation.
- (v) Should the Assignee to whom the valuation is addressed or anyone acting upon the Assignee's behalf in respect to the valuation or transaction involving reliance upon the valuation with CBRE's prior written agreement become aware of matters which may affect either the valuation figure(s) or anything stated in the valuation report, then the Assignee must not rely upon the valuation without first advising CBRE of those matters and not rely until CBRE agrees in writing to any reliance upon the valuation or any amended valuation.

Unless the above requirements are agreed to and are strictly complied with by the Assignee, CBRE will not accept or assume responsibility to the Assignee, nor does CBRE agree to any reliance being placed upon

this valuation and valuation report by the Assignee or any other party without CBRE's prior written agreement.

1.4 MARKET MOVEMENT

This valuation is current as at the date of valuation only. The value assessed herein may in the future change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property or particular property sector). CBRE does not accept liability for losses arising from subsequent changes in value. Nor should the valuation be relied upon if in the knowledge of Augusta Funds Management Limited or anyone acting on behalf of the aforementioned parties become aware that a change in the value may have occurred because of those factors noted earlier in this paragraph or any other similar factors.

Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability, nor should reliance be placed upon the valuation, or anything contained within the valuation report where this valuation report is relied upon after the expiration of 3 months from the date of valuation, or such earlier date if you or someone acting on your behalf with CBRE's prior written agreement become aware or are aware of any factors that have any effect on the valuation.

1.5 RELIANCE UPON REPORT

Only an original valuation report (hard and/or soft copy) received by the Reliant Party directly from CBRE without any third party intervention can be relied upon.

1.6 GST ASSUMPTIONS

Unless otherwise stated, all financial information and valuation calculations and assessments in this report are on the basis of plus GST (if any).

1.7 VALUER'S INTEREST

We hereby certify that the principal valuer is suitably qualified and authorised to practice as a valuer; does not have a pecuniary interest, financial or otherwise, that could conflict with the proper valuation of the property (including the parties with whom our client is dealing, including the lender or selling agent, if any); and accepts instructions to value the property only from the instructing party.

1.8 VALUE DEFINITION

Market Value Definition

In accordance with the International Valuation Standards 2017, the definition of market value is as follows:

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

Market Value – As If Complete

The value “As If Complete” assessed herein is the Market Value of the proposed improvements as detailed within this report on the assumption that all construction has been satisfactorily completed in all respects as at the date of this report. The valuation reflects the valuer’s view of the market conditions existing as at the

date of the valuation and does not purport to predict future market conditions and the value at the actual completion date of the improvements because of time lag and unknown future market conditions. Accordingly, the “As If Complete” valuation should be confirmed by a further inspection by the valuer, initiated and instructed by the lender, on completion of improvements. The right is reserved to review, and if necessary, vary the valuation in this report if there are any changes in relation to the project itself or in the property market conditions and prices.

1.9 QUALIFICATIONS

This valuation report is provided subject to the assumptions, disclaimers, limitations and qualifications detailed throughout this report and to those included within the Assumptions, Disclaimers, Limitations and Qualifications section of this report.

1.10 COMPLIANCE STATEMENT

This valuation has been performed in accordance with the International Valuation Standards 2017 and we confirm that:

- The signing valuer has prepared the valuation report for and on behalf of CBRE;
- The valuer has concluded an objective and unbiased opinion of value;
- The valuer has no material connection or pecuniary interest in the property or the party commissioning the valuation;
- The valuer is competent to undertake a valuation of an asset in this class and location. No one, except those specified herein has provided professional assistance in preparing this report.

2 SITE DETAILS

2.1 LOCATION

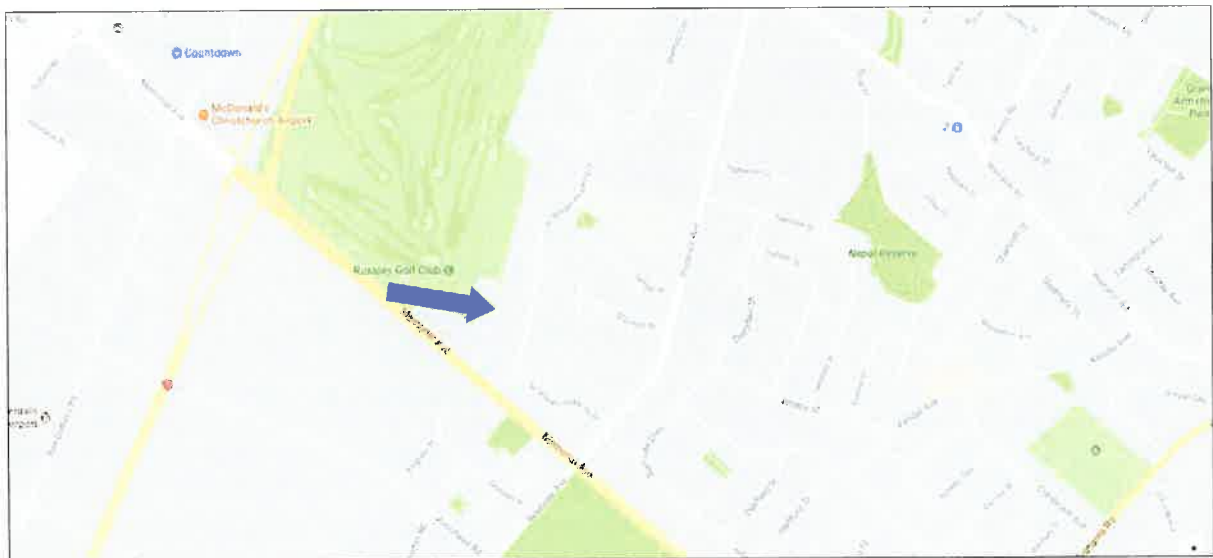
- Suburb:** Canterbury Technology Park, Burnside
- Situation:** The western side of Sir William Pickering Drive, approximately mid distance between its intersection with Sheffield Crescent to the north and Roydvale Avenue to the south.
- Location:** Canterbury Technology Park is situated to the northern periphery of Christchurch, some 10.0 kms to the north-west of the CBD of Christchurch with Christchurch International Airport being situated approximately 1.0 kms further to the north west.
- Surrounds:** Canterbury Technology Park is a reasonably modern office estate that initially progressed slowly from the mid 1980’s however having rapidly gained momentum in more recent times featuring a predominance of technical research, office and specialised activities interspersed with a green belt.

Occupants of note include Jade Software, MAF, Airways Corporation, MYOB, BNZ, Fulton Hogan and Vodafone however notably, like the balance suburban office market, there is an increasing prevalence of vacant space, certainly in recent quarters.

There is now limited land available for further development.

A key feature to the locality is proximity to Christchurch International Airport, a reasonably accessible labour pool and access to the central city.

The following map indicates the location of the subject property within the Canterbury Technology Park, Burnside:



2.2 SITE & SERVICES

Shape:	Irregular.
Topography:	Essentially level.
Site Area:	17,313 square metres (combined titles)
Street Frontage:	The site has an approximate however irregular frontage to Sir William Pickering Drive of circa 177.70 metres (combined titles), an average depth across the northern boundary of approximately 82.0 metres. In addition, an access strip fronts Memorial Avenue with a frontage of 4.3 metres.
Access:	The subject has multiple vehicular access points across the Sir William Pickering Drive frontage.
Services:	Typical services appear to be connected.

The following plan shows the legal boundaries of the property in relation to adjoining sites:



2.3 ENVIRONMENTAL

(Refer to Assumptions, Disclaimers, Limitations & Qualifications section – Premise 9.)

Site Contamination

Refer Critical Assumptions.

Asbestos

We have been provided with an Asbestos Assessment Report prepared by KPMG SGA dated 30 October 2017. The Asbestos Assessment Report provided did not detect any asbestos on site.

2.4 LEGAL DETAILS

The property is held under two individual Computer Freehold Registers described as follows:

Real Property Description (Freehold)

- Lot 7 Deposited Plan 54647, Identifier CB32B/847, Canterbury Land Registry.
- Lot 2 Deposited Plan 375305, Identifier 315961, Canterbury Land Registry.

Registered Owner

- Airways Nominee Limited.

Registered Interests

- Identifier CB32B/847 is subject to Section 8 Mining Act 1971 and Section 5 Coal Mines Act 1979.
- Identifier CB32B/847 is subject to Fencing Covenant in Transfer 832292.3.
- Identifier 315961 is subject to a Right to Drain Water specified in Easement Certificate 771805.21, a Rights (in gross) to Drain Sewage in favour of the Christchurch City Council created by Transfers 815862.5 and 815862.6, a right to drain water created by Transfer 7392847.4 and a right to convey electric power in favour of Orion New Zealand Limited created by Transfer 7392847.5 all being subject to Section 243(a) Resource Management Act 1991.
- Both Computer Freehold Registers are subject to Certificate A395454.1 pursuant to Section 37 Building Act 1991 which confers upon the Registered Proprietor that they may not separately transfer or lease the two individual titles without the prior consent of the Christchurch City Council.
- Both Computer Freehold Registers are subject to Undischarged Caveat 7481235.1 by Airways Corporation of New Zealand Limited (limited effect) dated 30 July 2007. This Caveat reflects the current occupancy arrangement (described in Section 4 of this report) and does not, in our opinion, detrimentally affect value or negotiability.
- Both Computer Freehold Registers are subject to Undischarged Mortgage 8266419.3 to ASB Bank Limited dated 1 September 2009.

The effect of the registered interests is reflected in our concluded value and we do not consider them to be materially detrimental to the marketability of the property

We have disregarded the presence of any mortgage or other financial liens pertaining to the property.

We have conducted a search of the Computer Freehold Register, and have assumed that there are no further easements or encumbrances not disclosed by this title search which may affect market value.

We enclose a copy of the Computer Freehold Register searches (refer Appendices).

2.5 RESOURCE MANAGEMENT

Local Authority:	Christchurch City Council.
Zone and Local Plan:	CO (Commercial Office) under the Christchurch District Plan.
Zone Description:	The Industrial Office Zone recognises and enables office activities in existing office park areas at Addington and Russley. These areas have lawfully established large scale office activities which have located in less than optimal locations. Policies for this zone provide a very clear direction that the Council does not support new office parks in industrial areas.
Existing Use:	Appears to conform.
Heritage:	None known.

(Refer to Assumptions, Disclaimers, Limitations & Qualifications section – Premise 10.)

2.6 RATING VALUATION

The latest rating valuation for the subject property as at 1 August 2016 is as follows:

<i>Property</i>	<i>Land Value</i>	<i>Improvements Value</i>	<i>Capital Value</i>
20 Sir William Pickering Drive	\$2,140,000	\$4,510,000	\$6,650,000
26 Sir William Pickering Drive	\$3,800,000	\$8,700,000	\$12,500,000
TOTAL	\$5,940,000	\$13,210,000	\$19,150,000

The above values are for rating purposes only, struck as part of a mass appraisal exercise, and do not necessarily reflect current market value and/or sentiment.

Moreover, the rating valuations above do not consider the premise ‘as if complete’ nor the specific lease structure considered herein.

3 IMPROVEMENTS

(Refer to Assumptions, Disclaimers, Limitations & Qualifications section – Premise 11, Premise 13.)

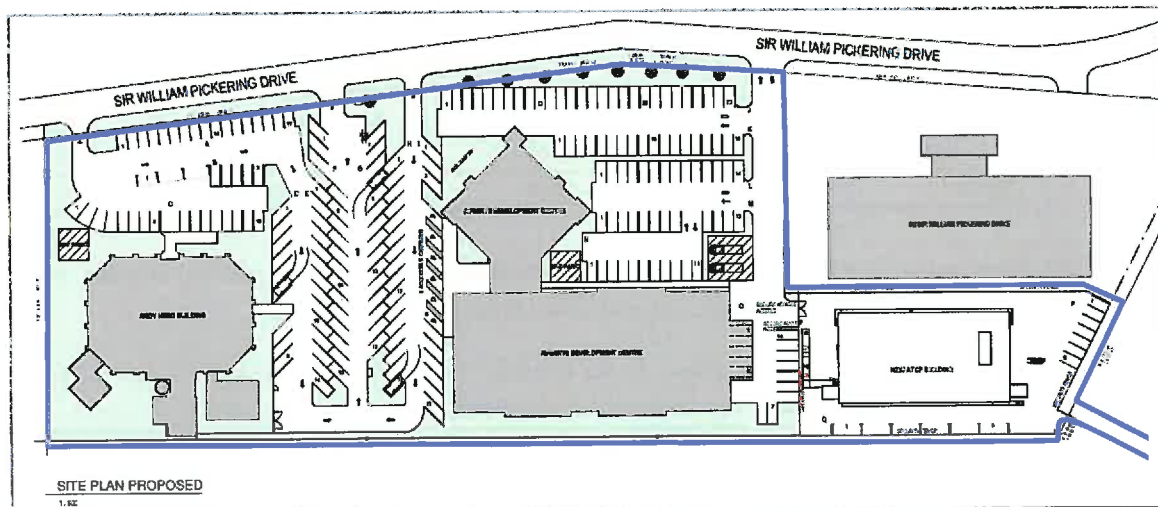
3.1 PROPERTY OVERVIEW

As is, the property comprises a substantial suburban office holding that is comprised in two separate buildings, namely the Andy Herd Building to the northern part of the site, together with two adjoining and inter-linked buildings known as ADC 1 & 2 in the central portion of the site.

It is proposed to construct a two level, base isolated, structure that offers ground level plant and first level accommodation comprising a specialised flight control centre as part of Airways national flight network operation.

In addition, balance site landscaping will be altered to accommodate the proposed structure, together with provisioning of approximately 237 carparking spaces and appropriate vehicle ingress/egress.

The following proposed site plan refers site layout ‘as if complete’, perimeter boundaries approximately delineated, the proposed ATC building outlined red.



The individual components are described hereunder.

3.2 EXISTING BUILDINGS – ANDY HERD, ADC 1 & ADC 2

3.2.1 General

As is, the property features two separate buildings comprising a mix of refurbished and more recently constructed office accommodation over two levels with some specialised areas.

To the northern portion of the site is the Andy Herd Building which was originally constructed in the circa late 1980's however with subsequent additions and refurbishment in more recent times.

To the southern portion of the site is the substantial two level ADC Building, constructed in two stages with an inter-connected Airways Building to the rear being completed in mid 2007.

As noted in our Critical Assumptions, we are advised the improvements have seismic ratings within the range of 70% NBS - 74% NBS, therefore the improvements are not considered ‘earthquake prone or risk’ by definition of the Building Act 2004.

Ample onsite carparking provision is available providing for a total of 261 marked open car spaces with pleasant landscaping to the balance including outdoor patio areas associated with the staff cafeterias of both buildings.

3.2.2 Construction

General construction comprises concrete foundations and flooring, predominantly concrete tilt panel exterior cladding, aluminium framed window joinery with it appears longrun iron roofing.

General internal construction and finishes comprise mixed age carpet and vinyl floor coverings, predominantly painted plasterboard internal partitions however with internal glazing in part, predominantly suspended ceilings with in-ceiling services including flush mounted fluorescent lighting, air conditioning and fire sprinklers.

3.2.3 Layout and Accommodation

Andy Herd Building

This building dates from the circa late 1980's however has been subsequently refurbished in full, in particular the ground floor in more recent times however such ground floor refurbishment has been carried out by the tenant and effectively in their ownership.

General accommodation comprises a central entrance lobby to the ground floor with adjacent stairwell and lift well. The ground floor is configured in a mix of open plan offices, predominantly to the street frontage with partitioned offices, storage areas, toilet amenities, lockers and shower facilities, sleeping rooms together with well appointed staff cafeteria opening to a formal paved outdoor patio area to the rear. Also to the rear of the main building however with internal access is an associated portacom office together with separate portacom storage areas.

The first level is specialised by virtue of its fitout providing for a flight control centre being orientated in an open plan nature with raised timber flooring with the balance northern portion of the floor offering some more limited partitioned office areas. Whilst the upper level is predominantly specialised, after removing such internal fitout, the base floor provides for typical office accommodation.

A total of 67 marked open carparks are associated with the Andy Herd Building to the road frontage and southern elevation with the balance site providing for generous landscaped areas including established trees and shrubs.





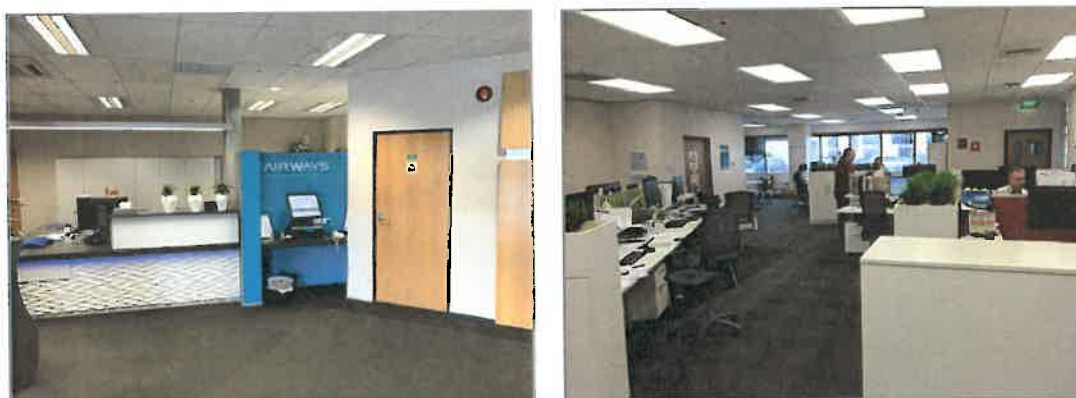
ADC 1 & 2

To the southern portion of the site is a substantial building constructed in two separate components however with both buildings being interlinked. The ADC 1 Building is situated to the road frontage being square in shape however rotated 45 degrees in a feature ‘diamond’ configuration then interconnecting through to the newer rectangular shaped ADC 2 building at the rear which was completed in 2007.

The ground floor of this building comprises main reception, adjacent large staff cafeteria including commercial kitchen and opening to an appealing covered patio area with associated external landscaped area. The balance ground floor is partitioned into a number of smaller offices, larger meeting rooms and some open plan areas with the south western components providing for various storage/loading bays together with a garage and associated carport.

The first level is predominantly utilised as a training school facility with partitioning again dividing the accommodation into larger meeting rooms/classrooms, smaller offices, some open plan areas together with various break-out rooms and some open plan office accommodation. In addition, we note three separate balcony areas at various intervals to the first floor being a pleasant additional feature.

A total of 194 marked open carpark spaces are associated with the ADC and new Airways Buildings. Again the balance grounds are pleasantly landscaped with grassed areas and established trees and shrubs.





3.2.4 Lettable Area

The floors areas of the existing buildings have been formally surveyed by Connell Wagner as at March 2007. The lettable areas for the buildings are summarised as follows:

Floor Area Summary		
Component	Area (sqm)	% of Total
Andy Herd Building:		
Ground Floor Office	895.34	11.9%
Ground Floor Plant	122.62	1.6%
Plant Facilities Enclosure	103.82	1.4%
Ground Floor Porta	112.01	1.5%
Ground Floor Patio Area	88.39	1.2%
First Floor Office	1,022.85	13.6%
Total - Andy Herd Bldg	2,345.03	31.3%
ADC Building:		
Ground Floor Office	668.13	8.9%
First Floor Office	653.17	8.7%
Total - ADC Bldg	1,321.30	17.6%
New Airways Building:		
Ground Floor Office	1,525.54	20.3%
Ground Floor Supply	164.10	2.2%
Ground Floor Loading	45.31	0.6%
Ground Floor Garage	86.76	1.2%
Ground Floor Carport	76.96	1.0%
Ground Floor Cafeteria Courtyard	64.22	0.9%
First Floor Office	1,810.81	24.1%
First Floor Covered Balconies	59.42	0.8%
Total - New Airways Bldg	3,833.12	51.1%
OVERALL TOTAL	7,499.45	100.0%

3.2.5 Condition & Repair

At the time of inspection improvements were generally well presented reflective of building age and use and appear to benefit from a regular maintenance programme. We note the more recent completion of earthquake repairs have enhanced the property in part.

Our valuation proceeds on the advice from Augusta Funds Management Limited the building have seismic compliance ratings in the range of 70% - 74% NBS.

We have not been provided with any reports in respect of the condition of the plant and machinery or service facilities within the property, nor have we been advised of any pending capital expenditure requirements for the subject within the short to medium term. Our approach to valuation by necessity

assumes that no significant capital expenditure is required in respect of the building or facilities contained therein at the present time.

3.2.6 Building Act 2004

The Building Act 2004 requires all buildings, which have certain systems installed relating to health, safety and fire, to be issued with a Compliance Schedule. The Compliance Schedule sets out the minimum requirements for servicing, maintenance, and inspections of these systems, and forms the basis of the Building Warrant of Fitness.

The Christchurch City Council advised Building Warrant of Fitness's for the various buildings onsite are all current as at the date of valuation and all contemporaneously expiry on the 1 September 2017.

3.3 PROPOSED ATC BUILDING

3.3.1 Overview

The proposed ATC Building will be situated to the rear south western portion of the site as indicated in the site plan shown previously at 3.1.

This is a specialised two-level structure, implicit of unique building characteristics above that of a conventional office building where key features include seismic design to 100% NBS as at IL4 standard (Importance Level 4) including base isolation foundation system, redundancy provisions for data, communications and power, including back-up power generation, specialised lighting and loading/unloading facilities.

The nature of the use is of national importance to the air traffic network, with the intent to maintain operations during any future event such as a natural disaster, and hence the heightened design and specification in this instance.

Hence the asset is highly specialised and faces a development cost significantly above that of a conventional commercial building.

3.3.2 General Construction

We have perused a design features report prepared by Aurecon dated 7 November 2017, which confirms the structural specification.

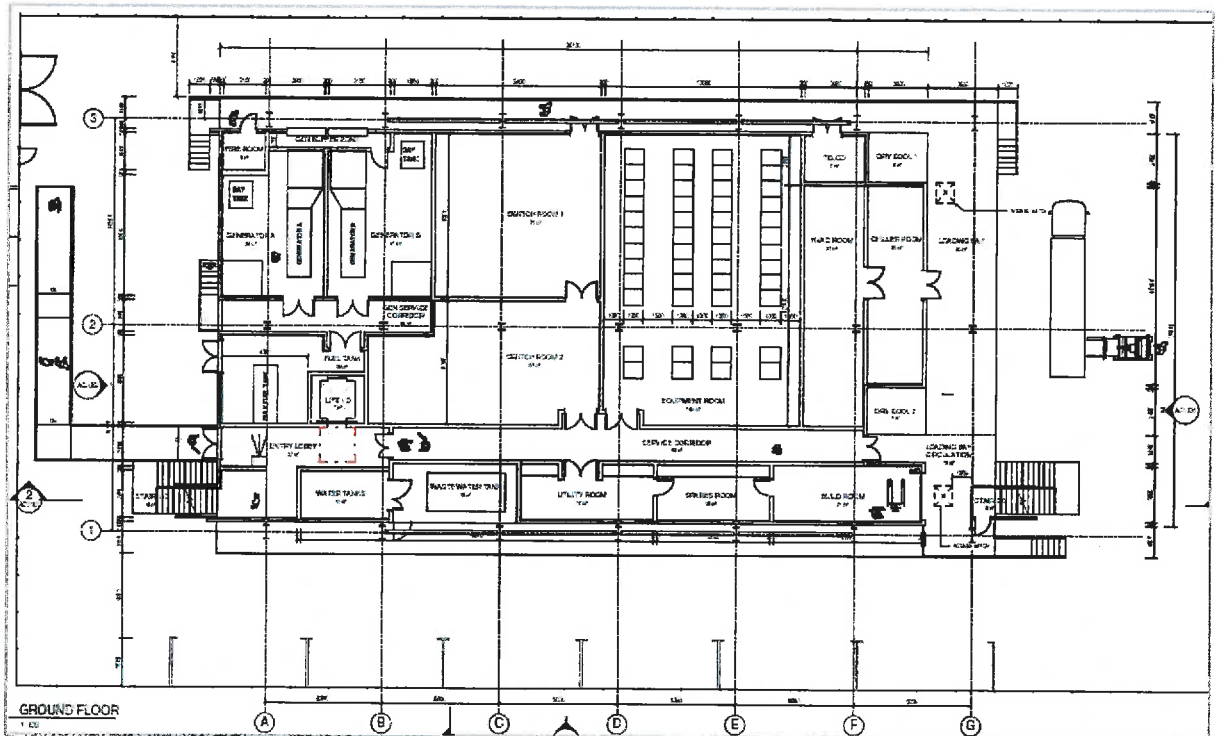
Briefly, this includes the use of a base isolated foundation system, designed to achieve a 100% NBS seismic rating for an Importance Level 4 (IL 4) structure. Primary building structure is to consist of structural steel floor and roof system with ground and first floor plates of cast insitu reinforced concrete. External cladding fabrics are to include pre-cast concrete, exterior steel framing and aluminium framed glazing where appropriate. The roofing fabric is to be long run iron.

Internal construction/finishes are mixed to each level. The ground floor is to be provided with sealed concrete floor finishes, mixed timber and concrete internal partitioning systems depending upon the nature of the use with exposed ceilings and appropriate lighting. The upper level, more akin to office accommodation is to include predominantly carpet tiled floor finishes to office areas, natural concrete to circulation areas, painted plasterboard lined internal partitions, mixed suspended and exposed ceilings, and mixed lighting. A raised timber floor will prevail through the ops centre.

3.3.3 Layout and Accommodation

The ground level is in essence for the provisioning of services to the control centre above, the exception being a minor entry including stair and lift wells to the upper more formal level. Internal configuration of the ground level is to include loading dock, some intensive partitioning in part to include two generator rooms, fuel tank room, two switch rooms, equipment room, HVAC room, chiller room and various ancillary areas that include but are not limited to telco, utilities, spares and waste water room.

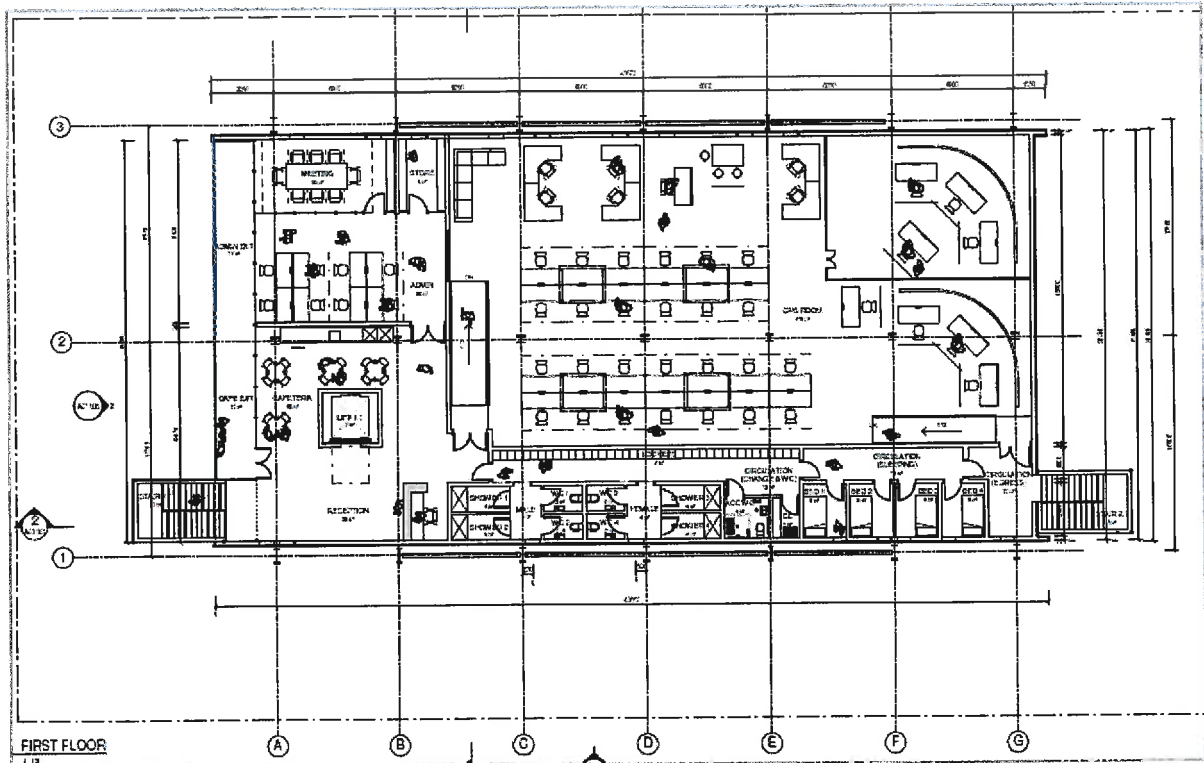
The nature of the ground level configuration is specific to the intended use and therefore unique within the market place. A floor plan supplied refers.



Configuration of the upper level is to include access up as previously described to small reception and cafeteria area, administration office and meeting room, large open plan office area known as Ops Room, together with amenity areas including toilets, shower and sleeping facilities.

The fitout and finishes are more akin to that of conventional office space, albeit with raised timber flooring and special acoustic features to the Ops Room.

The proposed layout of the first floor is shown in the following floor plan.



3.3.4 Lettable Area

We are advised lettable areas are to be formally surveyed upon completion.

Notwithstanding, we are advised the architects have estimated the net lettable area for both the ground and first floors at 780 sqm per level.

Our valuation proceeds on an ‘as if complete’ basis subject to these plans and therefore it follows the lettable floor areas as advised are adopted within our valuation.

In noting same, the rental agreed is a fixed amount and not subject to floor area reconciliation/washup. As the lease agreement affords a 25 year lease structure with fixed rent growth provisions, a minor variation in the ultimate net lettable floor area when complete is not considered material to the valuation of the proposed premise.

3.3.5 Condition & Repair

This component of the property is still to be constructed with our valuation proceeding on an ‘as if complete’ basis. Therefore, our valuation assumes new build finishes and services throughout.

3.3.6 Building Act 2004

A Building Warrant of Fitness will be required. However, as our valuation is subject to the issuance of Code Compliance certification, a Building Warrant of Fitness will not be required until 12 months following this date.

4 OCCUPANCY DETAILS

4.1 OVERVIEW

The existing premise is subject to an established lease between Airways Nominee Limited as Landlord and Airways Corporation of New Zealand Limited as Tenant.

As part of the proposed development considered herein, the lease structure has been specifically varied to facilitate same and is a key investment fundamental.

The key lease terms moving forward include a 25-year lease term with a 10 year renewal right pertaining to ADC 1, 2 and the new ATC Building with annual 2.0% pa growth, market reviews at year 10 and five yearly thereafter with a 10% cap/collar. Conversely, the Andy Herd building will be subject to a 10-year lease, renewal rights of 10, 10 and 6 years respectively, the same rent structure being applicable, however the market reviews scheduled at five yearly intervals.

The contract rent will equate \$2,453,884 pa plus GST, comprised of \$1,934,375 pa to the ADC 1 & 2 and new ATC buildings and \$519,509 pa to the Andy Herd Building.

In addition will be a \$180,000 pa improvement rent that will remain fixed over the 25-year lease term.

The lease is struck on a near net basis however excludes the recovery of management expenses that pragmatically apply for a property of this nature.

A cash incentive is provided to the tenant, our valuation ‘as if complete’ assuming same as a sunk cost and not applicable moving forward.

Airways Corporation New Zealand Limited is a Government owned entity, therefore affording excellent tenant covenant. Combined with the length of lease security (WALT of 21.83 years) and cashflow growth profile, the overall tenancy profile (by direct comparison to any alternative commercial property proposition) is a superior and highly desirable investment attribute.

4.2 KEY LEASE TERMS MOVING FORWARD

As noted within our Critical Assumptions, the key leasing terms moving forward are comprised within an executed Development Agreement which in turn will be formalised into appropriate lease documentation in due course.

The salient lease conditions of the existing lease are to be merged with a current Sixth Edition Auckland District Law Society Lease with the salient leasing terms as noted below incorporated.

The initial lease is to include all buildings and site, however notably provision is provided that post-practical completion, the Andy Herd building will be surrendered from the core lease and subsequently comprised in a separate lease document for a shorter term.

Therefore, the salient lease terms to apply at completion are noted as follows.

ADC 1 & 2 and Proposed ATC Building

- Lease term of 25 years from the date of practical completion;
- Right of renewal of 10 years with 12 months’ notice required;
- Commencing contract rental of \$1,934,375.35 pa plus GST;
- Annual rental increases of 2.0% pa excluding market review dates;
- Market reviews applicable at year 10 and five yearly thereafter, in accordance with the provisions of the existing lease, however modified to include a cap and collar at each review of 10.0%;
- Operating expense recovery in accordance with the existing lease. That is, essentially fully net, however with the exception that management expenses are a non-recoverable item;
- Provision that following an event, if in the reasonable opinion of the tenant, the seismic rating of the IL4 building is likely to have fallen below the rating applicable at practical completion, the Landlord will be required to upgrade same.

In addition, an improvements rental of \$180,000 pa is payable over the 25-year lease term. This rental quantum is non-reviewable and terminates at the end of the lease term certain. Accordingly, within our valuation calculations, we add for the present value benefit of this fixed and terminating cashflow.

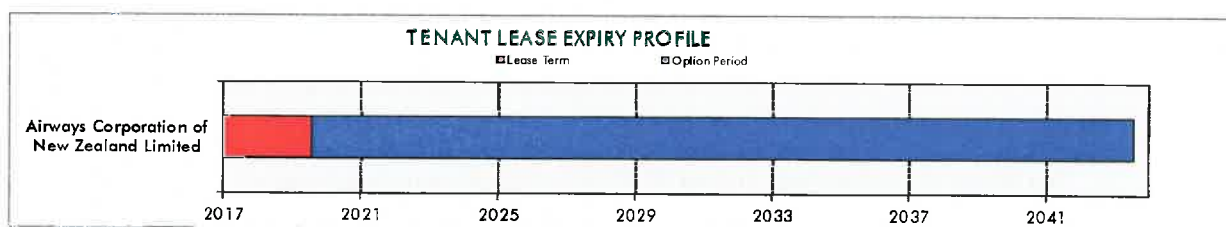
Andy Herd Building

- Following practical completion, on the earlier of 18 months’ post this date, or any time after 12 months’ post this date on 20 working days’ notice by the Tenant, the Andy Herd Building component is to be separated from the core lease and be held by way of a new lease granted on the terms noted hereunder;
- A 9-year initial term from the date of surrender. Therefore, the precise lease term to be applicable at the date of valuation (as if complete) could be a minimum of 10 years, 1 month, a maximum of 10 years, 6 months. We adopt the minimum within our valuation metrics;
- A single right of renewal of 6 years;
- The contract rental of \$519,508.65 applies to this component from practical completion, however upon issuance of the new lease will be adjusted in accordance with the 2.0% pa annual increase formula;
- The same rent review provisions apply, save for market reviews occurring at five yearly intervals;
- The same operating expense recovery is to apply.

4.3 EXISTING LEASE SUMMARY – TO BE VARIED

As previously noted, the existing lease structure is to be maintained, save for the key lease term variations as previously noted. Therefore, for good order, we outline the salient details of the existing lease agreement.

Lease Summary		
Lessee:	Airways Corporation of New Zealand Limited	
Lease Term (yrs):	12.00	
Option Period/s (yrs):	4 x 6.00 (6 months notice required)	
Commencement Date:	20-Jul-07	
Expiry Date:	19-Jul-19	
Rental	<u>\$pa</u>	<u>\$psm</u>
Total Rental	\$2,121,614	\$294.24
Outgoings Contribution:	The lease is struck on a near net basis however notably excludes the recovery of management expenses. There are some other amendments to the typical outgoings clauses however reflective of the nature of the building and not detrimental to the Landlord's position.	
Rental Reviews:	<p>The lease provides for 3 yearly reviews being a mixed structure of CPI and market reviews.</p> <p>At years 3 and 9 within the current lease term and year 3 in any renewal period, the annual rental is to be increased in accordance with the movement in CPI over the relevant period with a cap of 10.0%. Whilst no ratchet provision is specifically noted, the lease does specify that the rental is to be increased therefore full ratchet is implied.</p> <p>Moving forward, at each renewal date (if applicable), the annual rental is reviewable to market with soft ratchet provision to the commencement of the then current lease term, at the pending review / renewal date this being \$1.350 million. We comment the lease is prescriptive upon the manner in which Valuers and third experts must assess the current market rental, however overall is relatively speaking a common sense approach and consistent with wider market treatment.</p>	
Permitted Use:	Commercial office with associated car parking including air traffic control and navigation facility, training centre, technology support workshop, storage and associated services (or any other use permitted by the District Plan) operating up to 24 hours per day, 7 days per week.	
Fixtures & Fittings:	The Fifth and Sixth Schedules of the lease refer Tenant and Landlord fitout/fixtures and fittings respectively. Notable Tenant owned items include specialised fire detection system, telephone and data cabling, security system, back-up generators, partitioning, kitchen and kitchenette fitout, curtains and blinds and raised floor. Notable Landlord fixtures and fittings include fire protection system and reservoir tank, air conditioning (general and specialised), all power systems, floor coverings, suspended ceilings, lifts, light fittings, out-buildings, toilet areas and plumbing to kitchen/kitchenettes.	
Comments:	Overall this is a comprehensive lease document clearly outlining the responsibilities of both parties.	



5 FINANCIAL ANALYSIS

5.1 OUTGOINGS

Augusta Funds Management Limited have previously furnished CBRE with a detailed operating expense budget for the subject property as is. We have revised same to incorporate current Council rates charges and to incorporate a management expense quantum (presently not forming part of the budget provided).

The adopted operating expense quantum for the asset as is equates \$268,712 pa or alternatively \$37.27 per sqm. This quantum falls to the lower end of accepted market parameters for similar accommodation reflective of the larger scale and therefore enhanced economies of certain fixed costs diluted over a larger floor area.

Within our valuation modelling 'as if complete', we have adopted an operating expense quantum of \$331,026 pa which maintains the applicable rate per square metre noted above.

As noted, the lease is essentially struck on a net basis and therefore the tenant is responsible for the cost of all operating expenses, save for the cost of management.

With respect to a management expense allowance, we have adopted a non-recoverable management expense quantum of \$20,000 being reflective of a quantum that would be charged by an appropriate commercial property adviser. This cost is deducted from the contract rent position to derive a net rent received position.

5.2 CAPITAL EXPENDITURE

This type of building by its very nature requires continual expenditure to maintain the aesthetic appeal, structural integrity and hence, value of the asset. In this regard, we have incorporated a specific capital expenditure allowance throughout the term of our cash flow analysis in recognition of the requirement for an ongoing refurbishment program.

We note that at the time of writing we were not aware of any major items of capital expenditure outstanding and as outlined above our capital expenditure allowances are limited to the following items:

- A minimum capital expenditure allowance equivalent to 1.00% of gross income per annum.
- Lessor Works/Make Good allowance equivalent to \$400.0 per square metre (in today's dollars) over the total floor area. More importantly, this allows for a cost of circa \$500,000 at year 10 to provide some measure of refurbishment to the Andy Herd building at the time of lease expiry of the initial 10-year term, either to assist with maintaining the tenant or securing a new occupier.

The above allowances total to circa \$780,000 (\$90 per sqm) which we have budgeted for the building over the 10-year timeframe captured within our DCF approach.

The reflects the specific circumstances of the subject property and is consistent with treatment of comparable sales evidence by CBRE.

5.3 NET INCOME ESTIMATE

The net passing income is reconciled by CBRE as follows:

Component	NLA (sqm)	Net \$pa
Andy Herd		
Office - Ground	895.3	196,975
Office - Level 1	1,022.9	225,027
Portacom	112.0	16,241
Plant	122.6	14,714
Plant Enclosure	122.6	5,191
Carparks - Andy Herd	59	61,360
TOTAL - Andy Herd	2,152.8	519,509
ADC 1		
Office - Ground	668.1	153,670
Office - Level 1	653.2	150,229
ADC2		
Office - Ground	1,525.5	366,130
Office - Level 1	1,810.8	434,594
Grd Supply	164.1	20,513
Grd Loading	45.3	4,531
Grd Garage	163.7	14,735
Cafeteria	64.2	5,459
Carparks - ADC	162	168,480
Proposed ATC		
Ground Floor	780.0	287,395
Level 1	780.0	312,000
Carparks - IL4 (ATC)	16	16,640
TOTAL - ADC 1 & 2, IL4 (ATC)	5,030.8	1,934,375
Total Base Premise		2,453,884
Improvements Rent		180,000
Non Recovered Opex (Mgmt)		(20,000)
Total	7,183.6	2,613,884

The total base premise rent is \$2,453,884 pa. In addition is an improvements rental of \$180,000.

Notwithstanding, non-recovered management expenses must be deducted to equate a net rent received position. Therefore after deducting the non-recoverable management expense quantum of \$20,000 at 5.1, the net passing rent received is \$2,613,884 pa plus GST.

The two components of rent, that is base premise and improvements are separately treated from a valuation perspective. The base premise rent is capitalised into perpetuity as is market convention, whereas the improvements rent is a fixed and terminating cashflow, therefore treated on a present value basis.

6 RENTAL MARKET COMMENTARY, EVIDENCE & MARKET RENT CONCLUSION

6.1 SUBURBAN OFFICE MARKET OVERVIEW

6.1.1 Preamble

The earthquake events, the February 2011 event in particular, created a market dynamic within the Christchurch office sector that has never been contemplated before within an established city.

The February 2011 earthquake instantly removed the CBD from the office market for an extended period. This saw the mass expansion of the suburban office market, which now offers circa 400,000 sqm of space which is equivalent to the scale of the former CBD.

Rental rates initially escalated markedly as a consequence of rental returns required to make new build feasible, as well as a shortage of space available across the city. Benchmark levels of circa \$360.0 per sqm applied for the top-grade office space.

Now with the ongoing repopulation of the CBD, there are significant volumes of vacant space within the suburban sector, both actual and pending. CBRE research indicates that as at late 2016, approximately 70,000 sqm (18%) was vacant, however up to 120,000 sqm (circa 30%) of potential total vacancy will exist in the short term once known relations occur.

This dynamic is creating significant competition amongst Landlords to retain and or attract Tenants, resulting in a clear reduction in asking rentals and the introduction of incentives.

It remains early in the oversupply and subsequent discounting phase with a dearth of recent transactions to quantify the extent of discounting that has occurred to date. Certainly, both professional advisors and market participants across the board are accepting that discounting is and has occurred.

Anecdotally rental levels in the suburban market now appear to have returned to at or around pre-earthquake levels, being circa \$150.0-\$200.0 per sqm net for reasonable quality pre-earthquake buildings and up to \$250.0 per sqm net for the higher standard of accommodation.

6.1.2 Supply & Demand Dynamic

The foundation for interpreting any market is the applicable supply and demand dynamics. We closely monitor both the CBD and suburban sectors with respect to occupancy/vacancy levels.

Prior to the earthquake events, as surveyed in 2010, the core CBD provided for approximately 415,000 sqm of accommodation, approximately half pertaining to the A & B Grades, the balance to the lower C & D Grades. The level of vacancy at the time was approximately 10% or 40,000 sqm.

The earthquake events resulted in 90% of this accommodation being demolished. Alternatively put, only approximately 40,000 sqm of the original CBD was retained.

At present day, CBD office stock levels approximate 270,000 sqm at the time of our last survey however this is now pragmatically greater, we estimate in the range of 280,000 sqm +/- . Approximately 40,000 sqm remains vacant and in the main the absorption outlook moving forward is positive.

Prior to the earthquake events, the size of the suburban office market equated approximately 180,000 sqm based on CBRE research of buildings greater than 500 sqm, of which approximately 25,000 sqm or 14%

was vacant at the time of the earthquake. If buildings below 500 sqm were included, the level of stock would have been greater.

Following the earthquake events, all suburban office vacancy was immediately absorbed and because of the CBD being in lockdown for an extended period, a significant volume of office accommodation was constructed in various suburban locations throughout Christchurch.

At present day, the suburban office sector now equates a total accommodation pool of approximately 400,000 sqm, akin to the size of the former CBD.

The key dynamic in the suburban office sector moving forward is the combination of available space for prospective tenants to consider in the CBD, at much reduced rental rates than previous, combined with the level of vacancy, both current and pending, within the suburban office sector.

At the time CBRE last surveyed the suburban office sector, approximately 70,000 sqm or 18% was vacant. Combined, CBRE has as best as able reconciled potential vacancy, including tenants known to be relocating to the CBD (an example being Westpac in Show Place), or alternatively those tenants with a finite operational life such as EQC or Southern Response. On this basis, and all other things equal, approximately 50,000 sqm of additional vacancy is likely to occur.

Regardless of vacancy as a percentage of at or around 18%-30%, the sheer volume of vacant space in the range of 70,000-120,000 sqm, is a significant volume of space for the Christchurch market place to absorb and is undoubtedly a key risk area moving forward.

The following suburban office snapshot from the time of survey in late 2016 refers a summary of our discussion above.

SUBURBAN OFFICE SNAPSHOT BY BUILDING STATUS - INCLUDING VACANCY						
STATUS	Existing & Operational (sqm)	Existing & Unknown Status (sqm)	New Build Complete (sqm)	Under Construction (sqm)	Proposed (sqm)	Maximum Potential (sqm)
Total Stock	292,025	5,583	96,312	7,662		395,999
Occupied	239,028	0	79,684	7,461		326,173
Current Vacancy	52,997 18.15%	5,583 100.00%	16,627 17.26%	202 2.63%		69,826 18%
Known Future Vacancy	48,759 16.70%					118,585 30%

6.1.3 Market Moving Forward

It remains early within this phase of the market cycle; however, market participants are now certainly accepting of reversionary, re-leasing and maintainable rent risk.

Moving forward, our market observations and key variables include the following:

- The suburban market must take the lead of the CBD and be priced an attractive point below same;
- Tenants have undoubtedly obtained the balance of negotiation power with multiple tenancy choices available;
- Given the pending increase in vacancy over the short term (principally due to CBD core tenancy relocations), lease-up timeframes are now protracted and forecast to continue;
- Incentives have entered the suburban market and in instances are aggressive depending on lease terms and tenant covenant. We have witnessed new leases and pitches that Landlords have made to prospective Tenants in the order of 1 - 2 months' rent free per calendar year of lease. This equates a discount from the face rent paid of circa 10% – 20%;
- Achievable face (or contract) rentals are unquestionably falling, however there has been limited transactions to confirm where sentiment now lies. Certainly asking rentals in secondary locations or those with significant competing vacancy have reduced throughout 2017;
- There is pressure on Landlords to retain existing Tenants. We have witnessed examples where Landlords have offered sitting Tenants reduced rents prior to lease expiry in lieu of securing lease renewals;
- Inferior locations or lesser quality buildings are likely to suffer the greatest;
- There is potential for fitout packages and some limited examples are anecdotally now apparent;
- Some potential for capping of operating expenses;

As Valuers, we are now faced with a challenging market scenario to interpret.

There is ample historical evidence following the earthquake events, all at rental rates per square metre that market participants accept are now no longer achievable.

Market sentiment has clearly shifted and the challenge is that there have been limited new leasing transactions in recent quarters to definitively confirm where base rental parameters now lie.

6.2 TRANSACTIONAL EVIDENCE

In forming our conclusion of the market rent applicable to the subject premise, we have had regard to recent transactions occurring within the suburban office market.

We must acknowledge that we are faced with a position where we have ample historical evidence over say the 2012-2015 period, however the market now clearly accepts that discounting has occurred and there is a dearth of transactional evidence to confirm what level of discount now applies.

The following summary refers confirmed suburban office transactions that we are aware of and able to disclose that have occurred in the more recent 2016 - 2017 period:

Proposed Airways Premise Development – ‘As If Complete’
 20-26 Sir William Pickering Drive, Canterbury Technology Park, Burnside, Christchurch
 Date of Valuation: 16 November 2017

RENTAL EVIDENCE - WIDER MARKET

Property	Tenant	Accomm	Area (sqm)	Net Rate \$psm	Date	Annual Rent
15 Sir William Pickering Drive Burnside	Fulton Hogan	Grd, 1 & 2	2,716	\$300.00	Q3 2017	\$952,821 Lease Re-Neg. Face Rent
		Carparks - Uncovered	90	\$17.50		
		Carparks - Covered	36	\$30.00		
		Total Area	2,716	\$350.83		
Canterbury Technology Park Burnside	Confidential	Office	2,300	\$208.73	Sep-17	\$561,207 Commencing Rent - NER
		Carparks	104	\$15.00		
		Total Area	2,300	\$244.00		
Moorhouse Avenue Fringe CBD	Confidential	Office	350	\$225.00	Aug-17	\$80,050 Commencing Rent
		Carparks	1	\$25.00		
52 Oxford Terrace Fringe CBD	Hampton Jones	Level 3	265	\$228.68	Jul-17	\$71,865 Commencing Rent - NER
		Balcony	131	\$34.30		
		Store	30	\$50.00		
		Carparks	2	\$50.00		
	Total Area	265	\$270.87			
	Kite	Level 2	418	\$212.75	Jul-17	\$88,930 Commencing Rent - NER
Antigua Street Fringe CBD	Confidential	Office	350.0	\$225.00	Jul-17	\$89,150 Commencing Rent
		Carparks	10	\$20.00		
	Confidential	Office	350.0	\$205.00	May-17	\$79,550 Commencing Rent - NER
		Carparks	10	\$15.00		
1 Show Place Addington	MB Cook	Bldg 4 - Part Level 1	186.3	\$231.25	May-17	\$58,682 Commencing Rent - NER
		Carparks	12	\$25.00		
	Geosystems New Zealand Limited	Office	276.5	\$226.90	Apr-17	\$82,238 Commencing Rent - NER
		Carparks	15	\$25.00		
39 Princess Street Workstation 55 Addington	Dynamic Controls	Office - Face Rent	2,000 sqm +	\$190.0 - \$195.0	Feb 17	Commencing Rent
		Estimated Net Effective Range		\$150.0 - \$175.0		
		Carparks	100 +	\$12.50 - \$15.00		
	Whitebait TV	Offices	939.0	\$185.13	Feb 17	\$350,000 Review & Renewal
		Studio	764.0	\$105.00		
		Production	150.0	\$95.00		
		Mezzanine Office	357.0	\$185.13		
		Carparks	20.0	\$15.00		
Total Area	2,210.0	\$158.37				
359 Lincoln Road Addington	Chch Star	Level 1	1,000.0	\$150.00	Jan-17	\$169,500 Commencing Rent - NER
		Carparks	30.0	\$12.50		
Mary Muller Drive Woolston	ASL	Production	880	\$173.80	Jan-17	\$195,600 Commencing Rent
		Store	153	\$100.00		
		Share Common Area	95	\$125.00		
		Carparks	30	\$10.00		
		Total Area	1,127	\$173.52		
289-311 Tuam Street Fringe CBD	N Tec	Office	1,810	\$229.16	Oct-16	\$447,274 Commencing Rent - NER
		Carparks	25	\$25.00		
		Total Area	1,143	\$226.37		
19 Sheffield Crescent Burnside	Alpha Educational institute Ltd	Ground Floor Offices	314	\$201.63	Apr-16	\$210,000 Commencing Rent
		First Floor Offices	312	\$201.63		
		Second Floor Offices	312	\$201.63		
		Carparks	20	\$20.00		
	Keywin Homes Ltd	Ground Floor Offices	314	\$226.42	Apr-16	\$225,000 Commencing Rent
		First Floor Offices	312	\$226.42		
		Second Floor Offices	312	\$226.42		
		Basement	25	\$85.00		
		Carparks	10	\$20.00		

Property	Tenant	Accomm	Area (sqm)	Net Rate \$psm	Date	Annual Rent
55 Wordsworth Street Sydenham	MBIE	Ground Floor	1,717.1	\$209.58	Feb-15	\$451,841
		Mezzanine	196.6	\$160.32		
		Open Carparks	75	\$15.50		Rent Review
		Total Area	1,913.7	\$236.10		

The table of confirmed recent transactions generally ranges \$175.0 - \$225.0 per sqm, exceptions both above and below acknowledged.

The most notable exception is the recent lease renegotiation with the sitting tenant, Fulton Hogan at 15 Sir William Pickering Drive. We are not privy to the full details however the face rent equates \$300.0 per sqm for an excellent quality, post-quake 3 level office building. Relative to the wider evidence, this transaction does appear an anomaly and is difficult for us to quantify. We are mindful this is a direct negotiation with the sitting tenant and therefore not necessarily meeting the arm’s length and free negotiation test.

The most comparable transaction is a confidential letting of circa 2,300 sqm within Sir William Pickering Drive. We are fully cognisant of this transaction however we cannot at this juncture disclose details. We have analysed the agreed rental on a net effective basis, that is after deduction of applicable incentive, equating just below \$210.0 per sqm net and \$15.0 per park per week. Whilst the transaction is noted as commencing September 2017, notably same was concluded early in 2017 and the market has continued to soften since. Alternatively put, if negotiated today, at least greater incentive would have been required diluting the net effective rent further. Clearly this transaction exhibits the same locational attributes of the subject. This property benefits from direct street front profile, is of a refurbished, good quality standard.

Recent transactions to the fringe of the CBD including Oxford Terrace, Moorhouse Avenue and Antigua Street, lie within the range of \$200.0 - \$225.0 per sqm, typically for good quality accommodation however small tenancy sizes in the range of say 250 - 350 sqm.

Larger tenancies within Workstation 55 at Addington include a new lease to Dynamic Controls and a rent review and lease renewal of Whitebait TV.

In the instance of the Dynamic Controls tenancy, the agreed face rental approximates \$190.0-\$195.0 per sqm, however incentive was provided, we understand a net effective range of \$150.0 - \$175.0 per sqm resulting as a consequence.

With respect to the Whitebait TV tenancy, of interest to us is that this was a pre-earthquake lease that commenced 2009 at a rent of circa \$350,000 pa. Following the earthquake events, the rent increased to the order of \$500,000 pa, a \$150,000 or 43% increase on pre-earthquake rent. Analysis of the now agreed rent now equates circa \$185.0 per sqm, back to the pre-earthquake level.

With respect to both the Dynamic Controls and Whitebait TV tenancies, same are useful comparisons in respect of tenancy size and rent roll, the location is different and quality of accommodation whilst tidy is ultimately inferior.

A new lease for 1,000 sqm of upper level office accommodation at 359 Lincoln Road, occurred January 2017. The Christchurch Star agreed a rent of \$175.0 per sqm face, however with incentive diluting same to \$150.0 per sqm net effective. In prior years, this tenancy had been rented at \$250.0 per sqm.

On balance, drawing clear conclusions from the evidence available is fundamentally difficult, however sound benchmarks can be derived.

6.3 OFFICE TENANCIES AVAILABLE FOR LEASE

From a benchmarking perspective, we have had regard to suburban office tenancies presently being marketed for lease and subsequent asking rentals.

We acknowledge some are not confirmed transactions, however these are a useful benchmarks for us at the present juncture with respect to at least determining Landlord sentiment. Analysis of same assist to establish an upper benchmark as pragmatically in the negotiation dynamic no prospective tenant will offer a higher rental and further even if the asking rental is agreed, some incentive is likely to be required which dilutes the net effective rent further.

A summary of tenancies on the market for lease effective the date of valuation, is as follows:

Office Tenancies On The Market					
Address	Suburb	Area	Asking Rent - Face		
30 Sir William Pickering Drive	Canterbury Tech. Park	500 - 1,000	\$175.0 - \$200.0		Sublease
49 Sir William Pickering Drive	Canterbury Tech. Park	1,100	\$175.00		Direct
17 Sir Gil Simpson Drive	Canterbury Tech. Park	300	\$170.00		Sublease
567 Wairakei Road	Burnside	836	\$190.00		Sublease
Various 92 Russley Road	Russley	Various	From \$200.0		Direct
8 Nelson Street	Riccarton	378	\$200.0 NER		Direct
15B Leslie Hills Drive	Riccarton	400	\$212.50		Direct
9-11 Deans Avenue	Riccarton	646	Neg Over \$200.0		Direct
110 Mandeville Street	Riccarton	395	\$160.00		Direct
55 Princess Street - Workstation	Addington	Various	\$175.0 - \$195.0		Direct
9 Baigent Way	Middleton	704	\$180.00		Direct
70 Moorhouse Avenue	Fringe CBD	995	\$225.00		Direct

As can be seen, there are a number of tenancies in the immediate Canterbury Technology Park, Burnside and Russley locations, in the range of \$170.0 - \$200.0 per sqm asking rent.

The tenancies at 8 Nelson Street refer a marketing campaign with an asking face rental of \$250.0 per sqm for a five year term with a 10 month rent free package. We analyse the net effective rent at circa \$200.0 per sqm.

6.4 SPECIALISED RENT TRANSACTIONS

The nature of the proposed ATC Building with respect to its specific use and configuration, more specifically the heightened level of seismic design and redundancy provisions, means that the building is particularly unique in the context of the Christchurch market. Certainly to our knowledge, there is no directly comparable accommodation.

The contract rental agreed between the parties, as we understand, has been derived from a return on cost basis. This is typical methodology applied in a development process for specialised assets. The agreed rental reflects circa \$370.0 per sqm for the ground floor, \$400.0 per sqm for the first floor.

Notwithstanding an overall cash incentive reduces the net effective of same in the order of \$10.0% +/- and therefore equating at or around \$350.0 - \$375.0 per sqm net effective.

We have had regard to rent transactions for specialised assets, typically where rental has been established on a return on cost basis.

From the outset, we must acknowledge these transactions are not directly comparable to the subject, however highlight the elevated level of rent parameters that apply by contrast to conventional alternative commercial assets in the relevant sector.

The following refers:

RENTAL TRANSACTIONS - SPECIALISED ACCOMMODATION

Property	Tenant	Accommodation	Area - sqm	Rental - \$ psm	Date	Annual Rent
Medical						
Forté Health Kilmore & Salisbury Streets Fringe CBD	Various	Half & Full Floor Plates Open Shell Inc Specialised Bldg Services	450 - 1,800	\$400.00	2016 - 2017	Various Rent Reviews
14-16 Athelstan Street Barrington	Barrington Medical Centre	Ground Floor - Inc Soft & Hard Fitout First Floor Garage Premise Carparks	458 60 14 30	\$442.00 \$325.00 \$280.00 \$15.00	Oct-17	\$249,256 Rent Review
Total Area			532	\$468.53		
269 Papanui Road Merivale	Laser Vision	GFA - Base Premise GFA - Additional Fitout GFA - Fitout Implicit Open Carparks	306 14	\$400.00 \$178.59 \$578.59 \$25.00	May-17	\$195,000 Commencing Rent
Total Area			305.6	\$638.15		
67 Skyhawk Road Wigram Skies	Wigram Health	Ground & First Floor - Bare Shell Tenant Fitout GFA - Fitout Implicit Open Carparks	1,140 45	\$316.80 \$112.75 \$429.55 \$15.00	Mid 2016	\$396,282 Commencing Rent
Total Area			1,140.1	\$347.59		
Food Manufacturing / Processing						
Waterloo Business Park Canterbury	Santa Rosa Chicken	Offices & Amen Processing, Production & Plant Carparks	546 2,037 57	\$200.00 \$350.88 \$10.00	Sep-14	\$853,651 Commencing Rent
Total Area			2,583.2	\$330.46		
71 Shands Road Hornby	Big Chill	Office Warehouse Canopies Secure Concrete Hardstand Yard Carparks	150 1,906 135 2,650 23	\$200.00 \$188.11 \$50.00 \$35.00 \$10.00	Jun-14	\$500,000 Current Rent
Total Area			2,056.0	\$243.19		
12 Mary Muller Drive Woolston	Xtend Life	Offices & Amen Warehousing / Dispatch Processing Areas Expansion Land Carparks	636 355 811 390 35	\$200.00 \$150.00 \$340.28 \$13.00 \$8.00	Mar-13	\$476,256 Commencing Rent
Total Area			991.6	\$480.28		

The Forté Health building refers a low-rise purpose-built hospital building with heightened structural specification and some similar redundancy provisions. The tenancies are provided to the respective tenants on a bare shell basis inclusive of the core building services. Subsequent hospital fitout has been installed at the expense of the respective tenants. The rental rate agreed at rent reviews occurring late 2016, early 2017 for the various tenancies in place, generally equate \$400.0 per sqm.

Suburban medical facilities such as the Barrington Medical Centre, Laser Vision Merivale and Wigram Health, refer rentals typically in the range of \$425.0-\$580.0 per sqm, implicit of full internal fitout either incorporating intensive consultancy rooms, or indeed day surgery facilities.. The nature of the fitout is different to the subject, however indicates a premium in the order of \$200.0-\$300.0 per sqm above a base commercial office position.

Turning to the food manufacturing/processing sector of the industrial market, we note rental rates applicable to the processing, production and plant areas of both Santa Rosa Chicken and Xtend Life in the vicinity of \$340.0-\$350.0 per sqm. Certainly, this is a high margin above a base industrial tenancy provision, again circa \$200.0 - \$250.0 per sqm.

6.5 MARKET RENT CONCLUSIONS

The key leasing attributes for the subject property are detailed as follows:

- Mixed quality of the exiting improvements.
- Highly specialised nature of the ATC building, certainly both a heightened structural specification and inclusive of redundancy provisions being above a conventional office building, same required to be implicit in the rental subscribed.
- The subject tenancy is substantial in both size and rental quantum.
- Market evidence and asking rentals for generic suburban office accommodation indicate a challenging environment for Landlords with Tenants holding the negotiation power.
- Current weaker market perception of the immediate locality from an oversupply and future rental sustainability viewpoint.
- Long term lease structure with fixed growth provision, interspersed market reviews with cap/collar.

After due consideration of the above variables and market dynamic as previously described, we conclude the market rental, and compare to the passing contract rent in the table below.

Component	NLA (sqm)	CONTRACT & MARKET COMPARISON					
		Net Passing Rent		Net Market Rent		Rent	Diff
		\$pa	\$psm	\$pa	\$psm	Variance	
Andy Herd							
Office - Ground	895.3	196,975	220.00	165,638	185.00	(31,337)	-15.91%
Office - Level 1	1,022.9	225,027	220.00	189,227	185.00	(35,800)	-15.91%
Portacom	112.0	16,241	145.00	16,241	145.00	-	-
Plant	122.6	14,714	120.00	14,714	120.00	-	-
Plant Enclosure	122.6	5,191	42.33	6,131	50.00	940	18.11%
Carparks - Andy Herd	59	61,360	20.00	46,020	15.00	(15,340)	-25.00%
TOTAL - Andy Herd	2,152.8	519,509		437,972		(81,537)	-15.69%
ADC 1							
Office - Ground	668.1	153,670	230.00	130,285	195.00	(23,385)	-15.22%
Office - Level 1	653.2	150,229	230.00	127,368	195.00	(22,861)	-15.22%
ADC2							
Office - Ground	1,525.5	366,130	240.00	320,363	210.00	(45,766)	-12.50%
Office - Level 1	1,810.8	434,594	240.00	380,270	210.00	(54,324)	-12.50%
Grd Supply	164.1	20,513	125.00	18,051	110.00	(2,462)	-12.00%
Grd Loading	45.3	4,531	100.00	4,078	90.00	(453)	-10.00%
Grd Garage	163.7	14,735	90.00	16,372	100.00	1,637	11.11%
Cafeteria	64.2	5,459	85.03	7,062	110.00	1,603	29.36%
Carparks - ADC	162	168,480	20.00	126,360	15.00	(42,120)	-25.00%
Proposed ATC							
Ground Floor	780.0	287,395	368.46	273,000	350.00	(14,395)	-5.01%
Level 1	780.0	312,000	400.00	292,500	375.00	(19,500)	-6.25%
Carparks - IL4 (ATC)	16	16,640	20.00	12,480	15.00	(4,160)	-25.00%
TOTAL - ADC 1 & 2, IL4 (ATC)	5,030.8	1,934,375		1,708,190		(226,185)	-11.69%
Total Base Premise		2,453,884		2,146,162		(307,722)	-12.54%
Improvements Rent		180,000					
Non Recovered Opex (Mgmt)		(20,000)					
Total	7,183.6	2,613,884	363.87	2,146,162	298.76		

We have concluded the market rent to the base premise to be \$2,146,162 pa plus GST and all associated operating expenses.

For clarity, this is a net effective rental, after the effect of any incentive that would pragmatically apply in a new leasing transaction to achieve same.

The market rent concluded to the ATC building at \$350.0 and \$375.0 per sqm to the ground and first floors respectively ultimately reflects the contract rent negotiated, where parameters broadly align with the margin alternate specialised premises offer above that of their conventional counterparts, save for an adjustment in our market rent conclusion to reflect the overall leasing incentive provided.

The market rent assessed is \$307,722 pa or 12.50% below the passing contract rent.

In noting the same, we comment the passing contract rent has been negotiated with influence of a cash incentive provision. With this isolated, acknowledging same is difficult to analyse given the specific provisions of the lease structure, the net effective position of the contract rent agreed is below the face rent by circa 10.00% therefore accounting for most of the face contract rent and our market rent discrepancy.

Alternatively put, the contract rental is not materially above market when considered alongside the incentive provided.

Moreover, and importantly, in this instance we are faced with 25 and 10 year lease term certain periods with both fixed annual growth and market reviews interspersed with a cap/collar mechanism of 10%. Therefore, at worst, the rental reversions to market do not occur until 2042 for circa 80% of the rent roll and 2027 for the balance 20% of the rent roll.

Therefore, the valuation impact of the above market rent position is extensively mitigated by the effluxion of time in this instance. Therefore, we are of the view that any prospective purchaser will likely consider this of less consequence or impact.

7 INVESTMENT MARKET COMMENTARY & SALES TRANSACTIONS

7.1 INVESTMENT MARKET COMMENT

The investment market within Canterbury remains strong and continues with momentum of recent years.

There remains unsatisfied demand across all asset classes and most price points with limited supply, particularly for prime property with existing assets being tightly held. This has resulted in downward pressure on achievable yield levels and a subsequent increase in value levels, arguably this has now plateaued with benchmark yields no ensconced within the market place.

When offered for sale, prime properties particularly in the more affordable price brackets (say sub \$5.0m) are keenly contested. To achieve this, the right underlying fundamentals such as quality of improvements and seismic ratings/NBS percentage, location, tenant covenant and good weighted remaining lease term must be present. Prime property transactions exhibit yields on contract income consistently in the range of 6.00%-7.00%, exceptions noted, particularly in the suburban office sector.

Price point does remain an obstacle with a significantly reduced purchaser pool for assets above say \$10m-\$15m. Whilst there are more limited transactions, the yield levels achieved do not appear to represent any significant differentiation from their lower priced counterparts.

Secondary properties or those without the right underlying investment fundamentals continue to transact however do remain more challenging. The yield range on such properties is greater than that for prime assets, anywhere from say 7.50%-8.50% however is certainly individually asset specific. It appears in instances, lease terms and conditions are of lesser concern over other factors such as building quality, location and underlying ground stability or seismic strength ratings.

Engineering attributes remain a key consideration at purchase, for purchasers, financiers and consultants alike. Many investors are not interested in properties with lower NBS percentages, notwithstanding they may satisfy all other criteria and financiers will undoubtedly require a cost schedule/repair strategy in place to approve new lending if engineering attributes are low. This is likely to remain a continued obstacle moving forward.

Present indications are that the interest rate outlook for the foreseeable future is to remain restrained, certainly some predicted growth forecasts now being reconsidered. Accordingly looking to the future, we expect demand to remain strong, particularly for quality assets as the local economy continues to perform soundly.

A positive is the increase in larger investors outside of Canterbury monitoring the region potentially waiting for opportunities. This may prove an exit strategy for owners of larger assets, particularly if listed property funds or the like look to re-enter the market. We anticipate such purchasers will have an expectation of a margin for a perceived or otherwise ‘Christchurch risk factor’ in comparison to an identical property in say, Auckland however this may be more asset specific.

Overall, the fundamentals of the Canterbury economy at present are sound and appear likely to continue into the foreseeable future with significant monies still to be spent in the rebuild and the general economic outlook improving, albeit recent momentum now arguably waning. Accordingly, we consider the current investment market momentum sustainable in the short-medium term.

That said, the market is very strong and potentially bullish, particularly for certain assets. Whilst there are no indicators to suggest any discontinuation of the present strong momentum and pent up investment demand, we are mindful that there is a possibility the market may be entering an ‘over-heated’ phase of the property cycle.

7.1.1 New Government - Potential Impact?

Since inception, the new coalition Government has signalled some key areas of policy focus including, but not limited to, the establishment of a Regional Development Fund, a review of the Reserve Bank Act, an increase of the minimum wage, amendment of the Overseas Investment Act to restrict international buyers in the residential property market, increasing residential housing stock levels, particularly in Auckland, and targeting a net reduction in immigration.

There will be some challenges and opportunities for commercial property markets across the country as new policy direction takes shape. The current policy detail is at high level stage only and therefore it remains too early for any new market sentiment to have evolved, save to say a potential and initial ‘wait and see’ approach may be occurring.

Initial observations and possible impacts are noted as follows:

- Regional development and investment of infrastructure is expected to benefit manufacturing and logistics sectors, potentially adding to viability of what were previously considered remote or isolated locations.
- In the short term, there is expected to be minimum variation to interest rates as a result of possible changes to the Reserve Bank Act however the minimum wage increases may lead to some inflationary pressures as businesses look to pass on increased costs to consumers.
- The New Zealand dollar has already dropped and is expected to remain slightly weaker than recent years.
- None of the possible foreign ownership restrictions relate specifically to commercial property and it is unlikely there will be any material variation in demand for New Zealand commercial property assets based purely on a change in Government.
- Policies relating to residential accommodation are likely to make residential property investment a less attractive option. It follows this may increase demand for commercial assets however this would more likely refer to assets at the entry level, alternatively possibly increase syndication demand.
- Migration controls could cause a shortage in labour supplies, particularly Auckland, leaving the construction sector exposed. As a result, we do not expect to see construction costs reducing in the short term.

We remain cognisant of the above variables and will observe with interest, what, if any market changes may occur however at this juncture we do not foresee any obvious material short term changes.

7.2 INVESTMENT SALES EVIDENCE

To determine the market value of the subject property, we have considered a range of recent investment sales transactions that have occurred within the local market.

From the outset, we must acknowledge a paucity of truly comparable sales transactions with respect to the nature of the accommodation, the investment quantum and more particularly, transactions that exhibit the lease structure of the subject. For benchmarking purposes, we have therefore had regard to a handful of transactions that have occurred at a national level where long term lease structures apply.

These transactions refer.

Property	Sale Date	Sale Price	Initial Yield	Equivalent Yield	Market Yield	IRR	Spsm Lettable Area	WALE (yrs)
Suburban Office Transactions								
Confidential Northern Suburbs	UC Oct 17	\$10.0 Mill +	Circa 7.00%	Circa 6.00%			\$5,085	9.4
Tait Campus								
245 Wooldridge Rd - New Building	Aug-17	\$36,500,000	7.34%				\$5,545	
558 Wairakei Road - Existing Manufacturing		\$21,250,000	8.26%				\$1,890	
Combined Tait Campus		\$57,750,000	7.68%	7.11%	6.46%	7.22%	\$3,239	15.00
535 Wairakei Road Burnside	May-17	\$8,620,000	7.75%	7.81%	7.81%	7.15%	\$2,356	9.84
1 Show Place	Mar-17	\$12,150,000	8.04%	8.64%	8.79%	7.76%	\$3,231	4.30
Show Place Office Park, Addington	Balance Land	\$1,850,000					\$541	
Combined		\$14,000,000	6.98%	8.64%	7.63%	5.68%	\$3,723	
Nga Tahu Premise, 15 Show Place Show Place Office Park, Addington	Sep-16	\$16,355,758	8.40%	7.52%	7.38%	7.33%	\$4,302	8.26
335 Lincoln Road Addington	May-16	\$27,110,000	8.16%	7.16%	6.75%	6.30%	\$5,044	5.71
CBD Office Transactions								
Confidential Northern CBD Fringe	UC Oct 17	\$20.0 Mill +	6.00% - 6.50%				\$6,000 +/-	8.3
Duncan Cotterill Building 148 Victoria Street	Jul-17	\$24,000,000	7.10%	6.72%	6.24%	6.74%	\$6,472	7.50
PWC Centre 52-64 Cashel Street	Jun-17	\$49,000,000	6.83%	6.50%	6.27%	6.47%	\$6,228	8.10
CDHB Premises, 32 Oxford Terrace	Nov-16	\$40,000,000	6.00%	5.96%		6.11%	\$5,923	11.70
Telegis Building, 104 Victoria Street	Nov-16	\$18,000,000	8.00%	7.35%		7.53%	\$5,488	7.30
Combined CDHB & Telegis		\$58,000,000	6.62%	6.39%		6.55%	\$5,781	10.05
Commerical/Industrial Transactions								
Online Distribution 52 Kennaway Road, Woolston	Jul-17	\$9,400,000	6.26%	6.17%	6.11%	6.58%	\$2,232	10.00
Cardinal Freight Premise 550 Waterloo Road, Hornby	May-17	\$23,230,000	6.50%	6.40%	6.35%	7.00%	\$1,735	15.00
Mica & CDHB Premise 163 Montreal Street, Fringe CBD	Aug-17	\$15,680,000	6.16%	6.16%	6.11%	6.55%	\$3,775	6.88
Rangiora Vet Clinic 181 Lehmans Rd, Rangiora, North Canterbury	Aug-17	\$5,800,000	6.16%	5.88%	5.29%	6.22%	\$5,670	20.00
Repro / Mag & Turbo 41-59 Fitzgerald Avenue	Mar-17	\$7,740,000	5.75%	5.84%	5.96%	6.50%	\$3,963	8.50
National Transactions								
Eunings, Grey Lynn, Auckland	May-17	\$37,770,000	5.00%	5.00%	5.00%	5.40%	\$4,159	12.00
Eunings, Takapuna, Auckland	Oct-16	\$26,500,000	5.20%	5.20%	5.25%	5.60%	\$2,540	12.00
Countdown, St Johns, Auckland	Feb-16	\$21,308,000	5.80%	5.90%		5.10%	\$4,963	20.00
Countdown, Bureta Park, Tauranga	Feb-16	\$21,730,000	6.00%	6.00%	6.00%	6.00%	\$3,894	17.00
Countdown, Crofton Downs, Wellington	Feb-16	\$19,937,000	7.00%	6.80%		6.80%	\$5,695	20.00
The Warehouse DC, Wiri, Auckland	Sep-12	\$90,000,000	6.56%	6.97%	7.51%	8.97%	\$751	20.00

We have considered a range of transactions primarily from the suburban office sector however also from the CBD office market from a benchmarking perspective.

Within the suburban office sector, yields are indeed wide ranging, anywhere from circa say 7.50%-8.50%, exceptions both above and below acknowledged.

Within the CBD office market, transactions have typically ranged 6.00%-7.00%, again with exceptions.

None exhibit the specific long-term lease variables the subject offers.

We are aware of a confidential recently constructed suburban office asset that has been under contract in close proximity to the subject effective October 2017. The parties agreed terms however the purchaser did not complete the transaction after completing due diligence. Tenant covenant was sound, lease security was good at 9.4 years however the asset was ultimately over rented and therefore there was no rent growth potential and therefore heightened reversionary risk at lease expiry. This initial purchase agreement reflected a passing yield of marginally below 7.0% however we can place nominal, if any, weight on this transaction as it ultimately did not eventuate. Nonetheless, some sentiment can be drawn in the context of apparent investment demand and assist to establish some level of benchmarking.

The most recent suburban office transaction is the **Tait Campus** near the subject. The transaction refers two separately titled assets, a high quality newly built head office for Tait and a secondary manufacturing premise neighbouring. The properties sold in a single transaction to one buyer with a long term 15 year lease structure with fixed growth applicable. The sale was structured on the basis of a 7.34% yield to the newly constructed headquarters and 8.26% to the manufacturing premises, an overall yield of 7.68%. A key dynamic that is difficult to quantify is that the rent applicable to the newly constructed building is significantly above market however we understand the purchaser took the longer term cashflow view with fixed growth provision. By direct comparison to the subject, tenant covenant and lease security, whilst sound, are less preferred and the subject benefits from undoubted superior rent growth provisions.

535 Wairakei Road refers a 1980's building comprising a two-level office structure with attached warehouse fully converted to niche office space being leased on a long term basis to Farmlands. The property transacted off-market effective May 2017 for \$8.62 million, reflecting a yield on passing rent of 7.75%. A key driver in the transaction was circa 10.0 years lease security, an affordable contract rental and high underlying land value attributes.

There has been a range of substantial office transactions in Show Place and 335 Lincoln Road, both Addington in the 2016 to early 2017 period.

Most recently, **1 Show Place** transacted for \$14.0 million, although included some balance development land. The sale price is therefore challenging to analyse however equates 8.04% on contract rent or alternatively 8.80% on market with the development land isolated.

The Ngai Tahu premise at **15 Show Place** sold September 2016 for circa \$16.35 million, representing a yield on passing rent of 8.40%, the challenge being that the premise was acknowledged as substantially over-rented with a market review applicable three years following purchase date with no ratchet. At the time, the transaction analysed to a yield on market rent of approximately 7.40%, a margin of 1.00%. Notably, regardless of downside rent risk there was circa 9 years lease security and this was high quality suburban office asset.

335 Lincoln Road features a high quality low rise suburban office asset constructed post-quake within the Addington commercial precinct. The property was leased to multiple tenants, typically of good covenant and a weighted average lease term of 5.71 years applicable. As with balance suburban assets, an over renting position applied however the asset sold at a period of time where the market was less aware of this risk factor. The transaction equated 8.16% on contract rent, conversely 6.75% on market rent.

Turning to the CBD market, we are aware of a confidential northern CBD fringe office asset that is under contract at the date of valuation for in excess of \$20.0 million. We can report that the initial yield lies within the range of 6.00%-6.50%, the weighted average lease term being 8.3 years. The purchaser is presently undertaking due diligence and we are mindful the transaction is yet to be confirmed. We therefore place limited weight on the specific analysis of the transaction and do question whether the purchaser will confirm the transaction. We again however note same in cognisance of demand for a substantial office asset, albeit in a CBD location.

Within the CBD, there have been two recent substantial transactions, namely the Duncan Cotterill Building at 148 Victoria Street and the PWC Centre at 52-64 Cashel Street.

Most recently, the **Duncan Cotterill building** at 148 Victoria Street sold July 2017 for \$24.0 million. We analyse the transaction to an initial yield of 7.10%, an equivalent yield of 6.72%, this being the key valuation metric or alternatively 6.24% on market rent. The weighted average lease term is difficult to analyse given that Duncan Cotterill have a break right within their lease, however with significant penalty payment offsetting same. We consider the weighted average lease term is appropriately stated at 7.50 year, this being the dedicated lease term certain. Alternatively, one could argue the weighted average lease term is greater at 10 years plus.

The **PWC Centre** sold June 2017 for \$49.0 million. The property analyses to a passing yield of 6.83%, alternatively the key valuation metric of 6.50% equivalent yield, and further 6.27% on market rent. The weighted average lease term with a good tenant covenant spread, equated 8.10 years. This is again a high-quality building, situated in a strong position with Avon River outlook to the immediate CBD core fringe.

In late 2016, both the CDHB premise at 32 Oxford Terrace and the Telogis Building at 104 Victoria Street, sold as a single transaction. Both buildings refer initially earthquake damaged structures, refurbished, strengthened and extended by a single developer. The transaction was struck on the basis of a 6.00% yield on the CDHB premise, underpinned by a long term 15.0 year lease to the CDHB with fixed growth and 8.00% to the Telogis Building, where lesser lease security and weaker fundamentals apply. Combined, the transaction analyses to a yield of 6.62% with weighted average lease security of circa 10.0 years.

Turning to local commercial and industrial transactions, we note yields for what are typically considered prime assets have ranged from 5.75% to 6.50%. Of most relevance to the subject are the Cardinal Freight premise in Hornby, a new build distribution centre that sold for greater than \$20.0 million mid-year on a sale and lease back arrangement with 15 years lease term and annual rent growth. Similarly, the Mico & CDHB premise located in a fringe CBD position was transacted for circa \$15.0 million reflecting a passing yield of 6.16%, shorter lease security of 6.88 years and some fixed growth provisions.

Looking to the national market, we note two recent sales of Bunnings premises within Auckland at 5.00% - 5.20%. Various Countdown supermarkets around the country, both in main centres and provincial locations transacted in early 2016 as a single transaction however with individually derived price points where lease structures were typically 20 year terms, prime yields at or around 6.0% - 7.0%. Whilst now

dating 2012, we note the sale of The Warehouse DC at Wiri, Auckland reflected a \$90.0 million transaction for a single tenant asset for an initial yield of 6.56%, lease term provided of 20.0 years. None of these sales can be directly compared to the subject by reason of location and nature of accommodation however these transactions assist to indicate yield benchmarks for larger value quantum single tenant assets with long term lease security and good tenant covenants.

7.3 INVESTMENT SALES EVIDENCE CONCLUSIONS

The key investment characteristics of the asset are as follows:

- Substantial value quantum;
- Excellent tenant covenant;
- Excellent lease security, greater than any conventional market comparison with a WALT of 21.83 years;
- Desirable fixed rent growth provisions, cap and collar mechanism and length of lease terms protecting any downside risk;
- Generally lesser market appetite for suburban office assets, this offset in this instance by the above variables;
- Reversionary risk should Airways vacate the Andy Herd building at year 10;
- Specialised components, in part, expensive to replicate, therefore assuming the network operation and subsequent business need remains, greater than typical likelihood of maintaining the tenant through renewal periods.

With the above variables in mind, we have considered a blended capitalisation approach, reflecting the mixed 25 and 10 year lease structure.

The best comparison to the ADC 1, 2 & Proposed ATC components subject to a 25 year lease structure are the Tait head office, the CDHB premise and the Cardinal Freight industrial premises. On balance, we consider the applicable yield subject to a shorter term lease without the growth profile of the subject would be stated at or about 6.50%. Downwards adjustment however is required to reflect the 25 year term and the growth profile. We consider the applicable yield lies within the range of 5.50% - 6.00%, ourselves concluding at 5.75%.

With regard to the Andy Herd building and the 10 year lease structure, we consider the applicable yield lies within the range of 7.00% - 7.50% akin to the Farmlands transaction. We adopt the lower end of 7.00% reflecting the superior cashflow growth profile.

The following refers our derivation of the applicable capitalisation rate:

Blended Capitalisation Rate				
Component	Contract Rent	% of Total	Cap Rate	Blended Cap Rate
Andy Herd - 10 Yr Lease	\$519,509	21.2%	7.00%	1.48%
ADC 1 & 2, 114 (ATC) - 25 Yr Lease	\$1,934,375	78.8%	5.75%	4.53%
TOTAL	\$2,453,884	100.0%		6.01%
			ADOPT	6.00%

We conclude the applicable capitalisation rate at 6.00%.

For clarity, this is prior to rent versions between contract and market as well as adjustment to the end value reflecting the fixed term improvements rent of \$180,000. Accordingly, the reconciled value will exhibit varying metrics.

8 VALUATION RATIONALE

8.1 INTRODUCTION

In arriving at our opinion of value, we have considered relevant general and economic factors and in particular have investigated recent sales and leasing transactions of comparable properties that have occurred in the local market. We detail below our approaches to value.

8.2 CAPITALISATION APPROACH

In undertaking our valuation analysis, we have considered an investment approach whereby the net income has been capitalised in perpetuity from the valuation date, at an appropriate investment yield. The adopted yield reflects the nature, location and tenancy profile of the property together with current market investment criteria, as evidenced by the sales evidence previously detailed.

Our full valuation calculations are detailed as follows:

CAPITALISATION APPROACH		Market	Contract
		Rent (\$pa)	Rent (\$pa)
Income	Airways Corporation - Andy Herd	437,972	519,509
	Airways Corporation - ADC 1, 2 & ATC	1,708,190	1,934,375
NET RENT (before Non-Recoverable Outgoings)		2,146,162	2,453,884
Outgoings	Non-Recoverable Outgoings (Management)	(20,000)	(20,000)
FULLY LEASED NET INCOME		2,126,162	2,433,884
Capitalise In Perpetuity @		6.00%	6.00%
CAPITALISED VALUE		35,436,032	40,564,733
Capital Adjustments			
P.V. of Capitalised Rental Reversions		-	(1,636,616)
P.V. of Overage Rental		3,492,084	
P.V. Improvements Rent - \$180,000 fixed for 25 Years		2,223,417	2,223,417
Total Capital Adjustments		5,715,500	586,800
Sensitivity Analysis		41,151,532	41,151,534
5.75%	42,925,000		
6.00%	41,150,000	Adopt	41,150,000
6.25%	39,525,000		

8.4 VALUATION RECONCILIATION

Having regard to these analyses and the available market evidence, we have reconciled the value as follows:

Valuation Reconciliation		
Capitalisation Approach:	Assessed Value:	41,150,000
	Capitalisation Rate:	6.00%
Discounted Cash Flow Approach:	Assessed Value:	41,300,000
	Target IRR:	6.25%
	Terminal Yield	6.75%
ADOPTED VALUE		41,225,000
	Base Net Premise Rent:	\$2,433,884
	Fitout Rent:	\$180,000
	Overall Passing Income:	\$2,613,884
	Overall Passing Yield:	6.34%
	Added Value Fitout Rent (PV) SAY:	\$2,225,000
	Resultant Core Property Value:	\$39,000,000
	Core Property Analysis	
	Initial Yield:	6.24%
	Indicated Equivalent Yield:	5.99%
	Yield on Market Income:	5.45%
	Indicated IRR:	6.27%
	Capital Value Rate (\$psm):	\$4,460
	WALT (Years):	21.83

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This valuation is plus GST, if any.

Because of the significant influence of the improvements rent, we consider the concluded value is best stated between the core property and the additional cashflow benefit of the improvements rent.

The concluded market value of \$41.225 million is comprised of \$2.225 million pertaining to the present value benefit of the improvements rent whilst the residual \$39.0 million refers to the core property and its lease structure.

The key metric, and what is foremost in any investors mind is the passing yield, this being 6.24% on the base premises. This reflects the nature of the property and more particularly the lease security and rent growth provisions of the lease. We are cognisant the yield on market rent at 5.45% appears low by comparison to the transactional evidence however given the length of lease and growth provisions, this metric is not as prevalent in the end valuation reconciliation as would normally apply.

8.4.1 Alternative Reconciliation Considerations

Whilst not a key determining factor of our market value conclusion, given the more unique attributes in this instance, we have considered alternative metrics to place our valuation conclusion in context and gain a measure of comfort of the adopted value.

Firstly, we have considered the initial yield on a moving annual basis against our valuation conclusion in recognition of the fixed growth. The initial yield of circa 6.25% increases over a 10-year period to in the order of 7.25% at that juncture and further, this trend continuing beyond this point. The following refers.

Running Cashflow & Yield Forecast	Year									
	1	2	3	4	5	6	7	8	9	10
Forecast Net Cashflow	\$2,434,018	\$2,482,723	\$2,532,402	\$2,583,050	\$2,634,513	\$2,619,908	\$2,672,307	\$2,725,753	\$2,780,268	\$2,834,894
Growth From Previous Period	NA	2.00%	2.00%	2.00%	2.00%	-0.55%	2.00%	2.00%	2.00%	1.96%
Forecast Yield On Valuation Conclusion	6.24%	6.37%	6.49%	6.62%	6.76%	6.72%	6.85%	6.99%	7.13%	7.27%

K:\Valuations\2017\Portfolios\Augusta\Airways 2017\Report and Spreadsheet\AIC 1117\AIC 1117.xlsx\PV Cashflow

Secondly, the present value benefit of forecast cashflow certain equates circa \$33.425 million or 81% of our concluded value. Alternatively, the reversionary value outside of the lease term certain equates \$7.800 million being 19% of our concluded value or circa \$450 per sqm of land value. The follow refers.

Present Value Cashflow Reconciliation	
Present Value - Andy Herd Income	\$4,175,000
Present Value - Balance Site	\$27,025,000
Present Value - Fitout Rent	\$2,225,000
Total PV Income	\$33,425,000
Concluded Market Value	\$41,225,000
Present Value of Income	\$33,425,000
% of Value	81.1%
Residual Value	\$7,800,000
% of Value	18.92%
Land Area (ha)	17,313
Residual \$ per sqm Land	\$451
Residual \$ per sqm NLA	\$892

Neither of these latter metrics are utilised to determine the market value however assists to consider the reasonableness of our conclusion. Based on these analyses, we remain comfortable with our conclusion.

9 ADDITIONAL VALUATION REQUIREMENTS

9.1 PREVIOUS SALE

According to the public record, there has been no sale of the subject property within the last three years.

9.2 CONTRACT OF SALE

We are not aware of any current contract of sale over the subject property.

9.3 REASONABLE SELLING PERIOD

In the current market, it is our view that a marketing period for the asset ‘as if complete’ of circa 6-9 months may be required to effect a disposal assuming a professional marketing campaign. It is impossible to predict the specific influences upon market value which may occur in the future towards a property of this nature, and it follows that our opinion of value must assume that prevailing market conditions remain unaltered between the date of valuation and settlement.

9.4 FUTURE VALUE PROSPECTS

Refer to our SWOT Analysis/Investment Considerations for possible future value influences.

10 CONTACT DETAILS

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APPENDICES

APPENDIX I COPY OF CURRENT COMPUTER FREEHOLD REGISTER SEARCHES



**COMPUTER FREEHOLD REGISTER
UNDER LAND TRANSFER ACT 1952**



R. W. Muir
Registrar-General
of Land

Search Copy

Identifier 315961
Land Registration District Canterbury
Date Issued 29 May 2007

Prior References

CB41C/813 CB45A/1180

Estate Fee Simple
Area 1.1413 hectares more or less
Legal Description Lot 2 Deposited Plan 375305

Proprietors

Airways Nominee Limited

Interests

Appurtenant hereto is a right to drain water specified in Easement Certificate 771805.21 - 28.10.1988 at 11:47 am

Subject to a right (in gross) to drain sewage over part marked D on DP 375305 in favour of Christchurch City Council created by Transfer 815862.5 - 14.7.1989 at 11:32 am

The easement created by Transfer 815862.5 is subject to Section 243(a) Resource Management Act 1991

Subject to a right (in gross) to drain water over part marked P on DP 375305 in favour of Christchurch City Council created by Transfer 815862.6 - 14.7.1989 at 11:32 am

The easement created by Transfer 815862.6 is subject to Section 243(a) Resource Management Act 1991

A395454.1 CERTIFICATE UNDER SECTION 37 BUILDING ACT 1991 (ALSO AFFECTS CT CB32B/847) - 17.3.1999 AT 9.45 AM

Subject to a right to drain water over part marked B on DP 375305 created by Transfer 7392847.4 - 29.5.2007 at 9:00 am

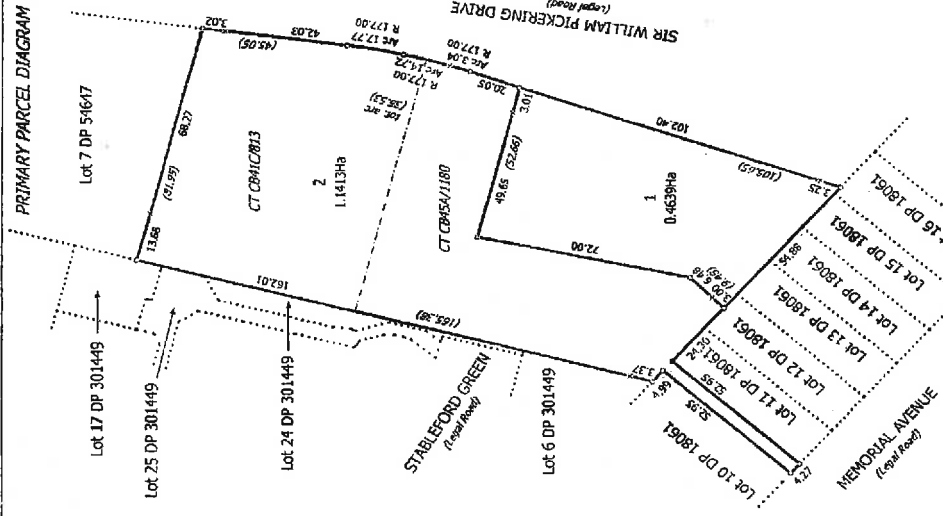
The easements created by Transfer 7392847.4 are subject to Section 243 (a) Resource Management Act 1991

Subject to a right (in gross) to convey electric power over part marked A on DP 375305 in favour of Orion New Zealand Limited created by Transfer 7392847.5 - 29.5.2007 at 9:00 am

The easements created by Transfer 7392847.5 are subject to Section 243 (a) Resource Management Act 1991

7481235.1 CAVEAT BY AIRWAYS CORPORATION OF NEW ZEALAND LIMITED (LIMITED EFFECT) - 30.7.2007 at 9:00 am

8266419.3 Mortgage to ASB Bank Limited - 1.9.2009 at 10:08 am



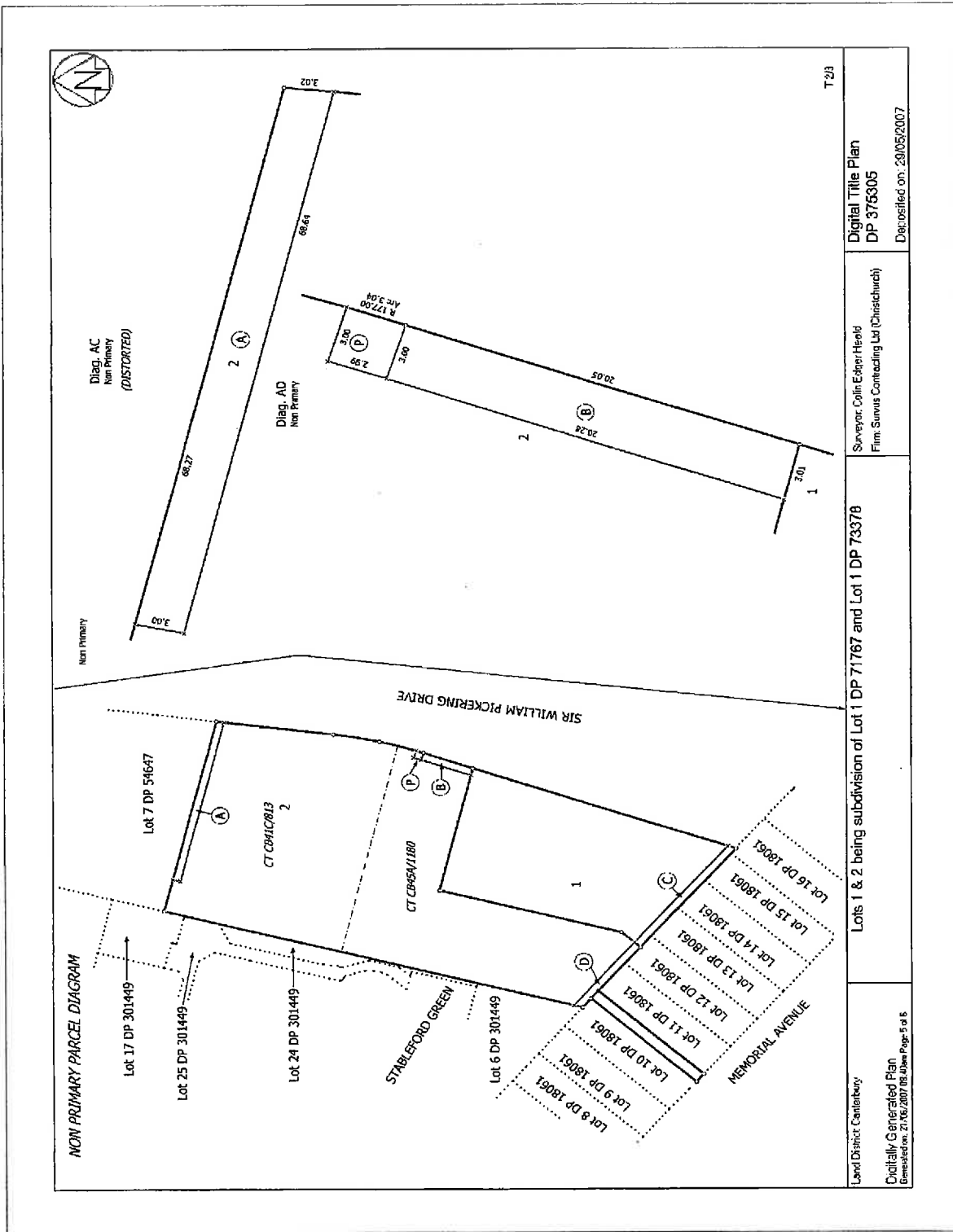
T 1/3

Digital Title Plan
DP 375305
Deposited on: 29/05/2007

Surveyor: Colin Edgar Heald
Firm: Sarnis Contracting Ltd (Christchurch)

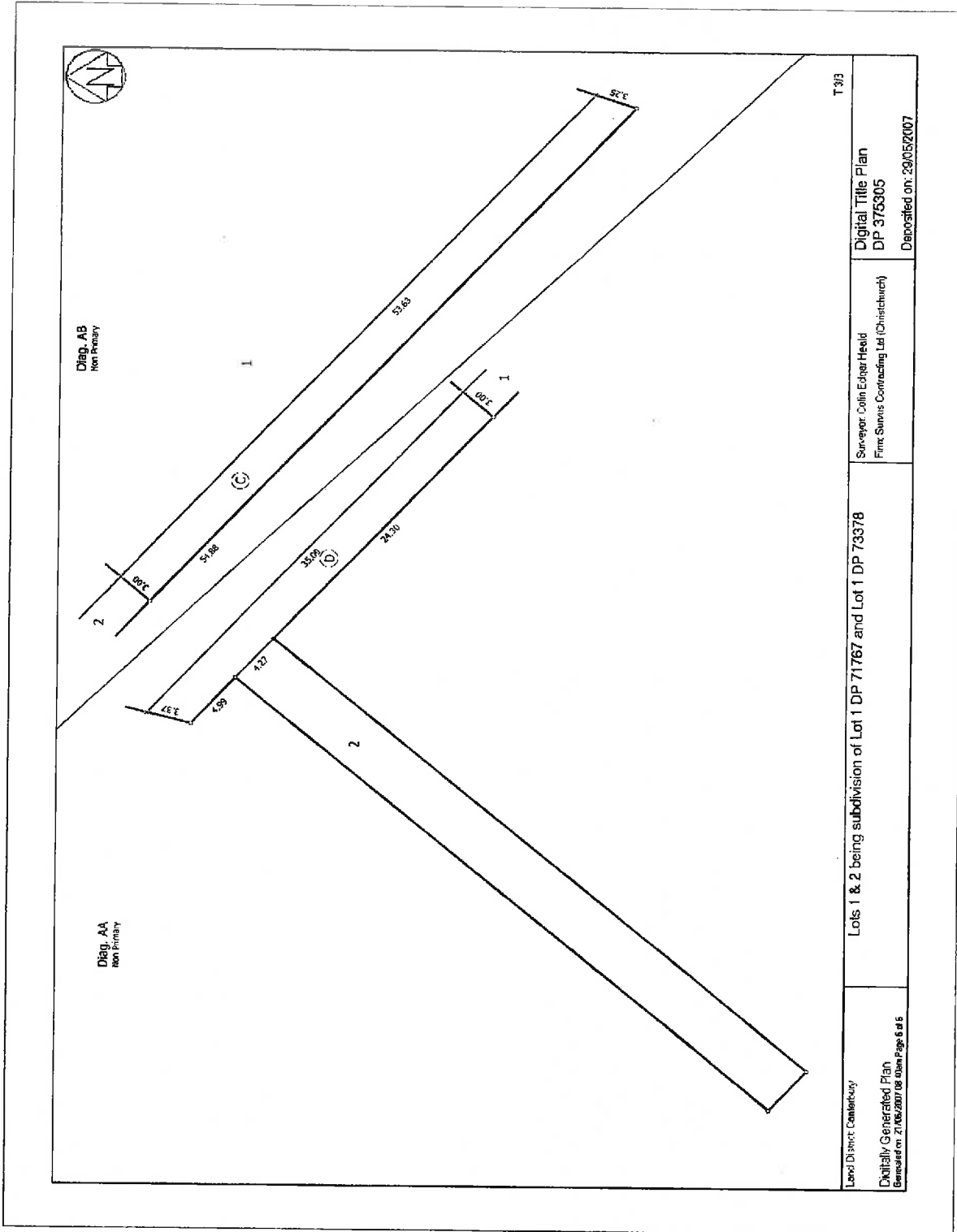
Lots 1 & 2 being subdivision of Lot 1 DP 71767 and Lot 1 DP 73378

Land District: Canterbury
Digitally Generated Plan
Generated on: 21/05/2007 08:40am Page: 4 of 6



Identifier

315961





**COMPUTER FREEHOLD REGISTER
UNDER LAND TRANSFER ACT 1952**



Search Copy

R.W. Muir
Registrar-General
of Land

Identifier CB32B/847
Land Registration District Canterbury
Date Issued 16 August 1989

Prior References

CB32B/285

Estate Fee Simple
Area 5900 square metres more or less
Legal Description Lot 7 Deposited Plan 54647

Proprietors

Airways Nominee Limited

Interests

Subject to Section 8 Mining Act 1971

Subject to Section 5 Coal Mines Act 1979

Fencing Covenant in Transfer 832292.3 - 12.10.1989 at 11.17 am

A395454.1 CERTIFICATE PURSUANT TO SECTION 37 BUILDING ACT 1991 (AFFECTS CST CB41C/813 AND CB32B/847) - 17.3.1999 AT 9.45 AM

7481235.1 CAVEAT BY AIRWAYS CORPORATION OF NEW ZEALAND LIMITED (LIMITED EFFECT) - 30.7.2007 at 9:00 am

8266419.3 Mortgage to ASB Bank Limited - 1.9.2009 at 10:08 am

