Attachment J: *Valuation and Consultancy Report: Scott Ansley, CBRE*

VALUATION & CONSULTANCY REPORT

Harley Chambers Site
137 Cambridge Terrace
Central City, Christchurch

Instructed By & Prepared For: Lee Pee Limited

Date of Reporting: 26 September 2017 CBRE


HARLEY

CONTENTS

Page

1 INTRODUCTION ... 8
- 1.1 Instructions – SCOPE OF WORKS ... 8
- 1.2 Extension of Liability & Confidentiality ... 8
- 1.3 Assignment ... 9
- 1.4 Market Movement ... 9
- 1.5 GST Assumptions ... 10
- 1.6 Valuer's Interest ... 10
- 1.7 Value Definitions ... 10
- 1.8 Qualifications ... 10
- 1.9 Compliance Statement ... 11

2 SITE DETAILS ... 12
- 2.1 Location ... 12
- 2.2 Site & Services ... 12
- 2.3 Legal Details ... 13
- 2.4 Resource Management ... 14
- 2.5 Rating Valuation ... 14

3 IMPROVEMENTS ... 15
- 3.1 Existing Harley Chambers Strengthened to 34% NBS ... 15
- 3.2 Harley Chambers Strengthened & Repaired to 67% NBS ... 15
- 3.3 Harley Chambers Strengthened & Repaired to 100% NBS ... 18
- 3.4 Proposed Replacement Replica Building ... 18
- 3.5 Proposed Replacement Building, Existing façade Retained ... 18
- 3.6 Proposed Replacement Three Level Building ... 19

4 MARKET CONSIDERATIONS AND EVIDENCE ... 20
- 4.1 Office Rental Market Commentary & Evidence ... 20
  - 4.1.1 Market Supply ... 20
  - 4.1.2 Rental Levels ... 21
- 4.2 Rental Evidence ... 22
  - 4.2.1 Rental Evidence – Existing Office Buildings & Office Suites ... 22
  - 4.2.2 Rental Evidence – Newly Constructed Office Towers ... 24
- 4.3 Investment Market Commentary ... 25
- 4.4 Investment Sales Evidence ... 26
- 4.5 Land Sales Evidence ... 28

5 VALUATION – HARLEY CHAMBERS IF STRENGTHENED TO 34% NBS ... 30
- 5.1 Valuation Rationale ... 30
- 5.2 Valuation Conclusion ... 30

6 VALUATION – HARLEY CHAMBERS REPAIRED & STRENGTHENED TO 67% NBS ... 32
- 6.1 Valuation Methodology ... 32
- 6.2 Key Considerations ... 32
- 6.3 Valuation Conclusion ... 33
  - 6.3.1 Market Rent Assessment ... 33

6.3.2 Capitalisation Approach 34
6.3.3 Valuation Reconciliation 34

7 VALUATION – HARLEY CHAMBERS REPAIRED & STRENGTHENED TO 100% NBS 35

7.1 Key Considerations 35
7.2 Valuation Conclusion 35
7.2.1 Market Rent Assessment 35
7.2.2 Capitalisation Approach 35
7.2.3 Valuation Reconciliation 36

8 VALUATION – REPLACEMENT THREE LEVEL MODERN REPLICA BUILDING 37

8.1 Key Considerations 37
8.2 Valuation Conclusion 37
8.2.1 Market Rent Assessment 37
8.2.2 Capitalisation Approach 38
8.2.3 Valuation Reconciliation 38

9 VALUATION – REPLACEMENT THREE LEVEL BUILDING, HERITAGE FAÇADE RETAINED 39

9.1 Key Considerations 39
9.2 Valuation Conclusion 39
9.2.1 Market Rent Assessment 39
9.2.2 Capitalisation Approach 39
9.2.3 Valuation Reconciliation – Replacement Three Level Building, Heritage Facade Retained 40

10 VALUATION – REPLACEMENT OFFICE BUILDING 41

10.1 Key Considerations 41
10.2 Valuation Conclusion 41
10.2.1 Market Rent Assessment 41
10.2.2 Capitalisation Approach 42
10.2.3 Valuation Reconciliation 42

11 VALUATION SUMMARY 43

12 ECONOMIC FEASIBILITY CONSIDERATIONS 44

12.1 Introduction 44
12.2 Residual Development Methodology 44
12.3 Residual Development Methodology 44
12.4 Residual Development Valuation – Harley Chambers Repaired & Strengthened Scenarios 45
12.5 Residual Development Valuation – Harley Chambers Repaired & Strengthened Scenarios 46
12.6 Economic Feasibility Reconciliation 47

13 WORCESTER CHAMBERS – 69 WORCESTER BOULEVARD 48

14 CONTACT DETAILS 50

APPENDICES

Appendix I Assumptions, Disclaimers, Limitations & Qualifiactions
Appendix II Copy of Current Computer Freehold Register Searches

CONSULTANCY OVERVIEW

Property:

Harley Chambers Site
137 Cambridge Terrace
Central City
Christchurch

Instructing Party:

Lee Pee Limited
PO Box 2838
Westend
Christchurch 8140

Attention: Rosie Hobbs

Consultancy Purpose:

To consider market value outcomes of possible repair and strengthening or replacement options together with economical feasibility analysis of same.

Instructions:

Lee Pee Limited has instructed CBRE Limited to provide valuation consultancy advice in relation to possible repair and strengthening or alternatively replacement options for the earthquake damaged Harley Chambers, a three level commercial building with heritage classification located at the intersection of Cambridge Terrace and Worcester Boulevard, Christchurch CBD.

The valuation outcomes we have been requested to consider include the repair and strengthening of the existing Harley Chambers improvements to each of 34%, 67% or 100% NBS outcomes. Alternatively, the demolition and replacement with a modern replica building, a new building with existing facade retained or alternatively a newly constructed office building of contemporary standard of similar scale.

We have further been instructed to consider the economic feasibility of each scenario based construction costs as determined by Aecom.

We also provide applicable market commentary to appropriately place the above in the context of the current market dynamic as well as provide a summary of recent transactional evidence and analysis thereof in support of our valuation conclusions.

Date of Reporting:

26 September 2017

Assumptions, Disclaimers, Limitations & Qualifications Summary:

This report is 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 consultancy advice 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

EXECUTIVE SUMMARY

An executive summary of our findings is shown as follows:

EXECUTIVE SUMMARY

Scenario	Concluded Market Rent $ pa	Concluded Value 'As If Complete' & Fully Occupied	Indicated Value 'As Is'
Harley Chambers - If 34% NBS (Land Value Less Costs)	NA	$3,520,000	$2,390,000
Harley Chambers Repaired to 67% NBS	$512,676	$7,075,000	-$12,300,000
Harley Chambers Repaired to 100% NBS	$512,676	$7,325,000	-$13,975,000
Replacmement 3 Level Modern Replica	$655,000	$9,350,000	-$4,250,000
Replacement 3 Level Building, Façade Retained	$655,000	$9,025,000	-$5,475,000
Replacement 3 Level Office Building	$715,500	$10,600,000	-$2,225,000

The above values are plus GST (if any), and in the case of market rent, plus operating expense charges.

The concluded market value 'as if complete' subject to 34% NBS, equates $3.520 million. For clarity, this is our conclusion of the unencumbered land value where we consider the highest and best use is to demolish the improvements (Harley Chambers). The indicated value 'as is' under this scenario at $2.390 million reflects the costs to achieve same (demolition, holding cost and an appropriate profit and risk allowance).

All balance repair or replacement scenario's result in an outcome that has a negative value 'as is'. The negative outcome means that the costs associated outweigh the value that can be achieved upon completion in the majority of instances by a significant quantum. Any party contemplating such proposition would suffer significant monetary losses. All five repair or replacement scenarios are therefore deemed uneconomic from a feasibility perspective.

<u>Because of the above analyses, highest and best use, and the only pragmatic economic outcome, is stated as land value less demolition.</u>

CRITICAL ASSUMPTIONS

Our valuation consultancy proceeds on the following Critical Assumptions:

- Given the state of the building, we have not completed an internal inspection. This is an unavoidable departure from International Valuation Standards 2017 however nonetheless, the Valuer is familiar with the current building and its internal configuration from its pre-quake era to facilitate the level of valuation consultancy provided herein. Where we are unable to independently verify matters of fact such as the lettable floor area of the existing building, our valuation conclusions rely on data supplied to us.

- Our residual valuation conclusions rely upon construction costs as provided by AECOM as experts in these matters.

1 INTRODUCTION

1.1 INSTRUCTIONS – SCOPE OF WORKS

We have been requested to provide valuation consultancy with regard to the Harley Chambers site located at 137 Cambridge Terrace Central City, Christchurch including the following:

1. Provision of associated market commentary, background and applicable transactional evidence to place the subject property, and proposals noted below, within its market context.

2. Determine the current market value on an 'as if complete' and fully leased basis, under the following possible scenarios:

    - Harley Chambers repaired and strengthened to 34% NBS
    - Harley Chambers repaired and strengthened to 67% NBS
    - Harley Chambers repaired and strengthened to 100% NBS
    - A replacement modern replica building
    - A replacement three level building with present building façade retained
    - Proposed replacement three level office building

3. Subject to costs as provided, apply residual development valuation methodology to consider the economic feasibility of the above scenario's.

4. In addition, we have been requested to provide brief commentary of the market context of neighbouring Worcester Chambers building at 69 Worcester Boulevard.

Where appropriate, 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

This report may only be relied upon by Lee Pee Limited to whom the report is addressed for the specific purpose to which it refers.

No responsibility is accepted or assumed to any third party, nor should there be any reliance upon this report by any third party other than Lee Pee Limited to whom the report is addressed, without our express written agreement.

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.

No responsibility is accepted or assumed to any third party, nor should there be any reliance upon this report by any third party other than entities listed above to whom the report is addressed, without our express written agreement.

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 Lee Pee Limited or Rosie Hobbs 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 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).

1.6 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.

1.7 VALUE DEFINITIONS

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.

1.8 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.

1.9 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

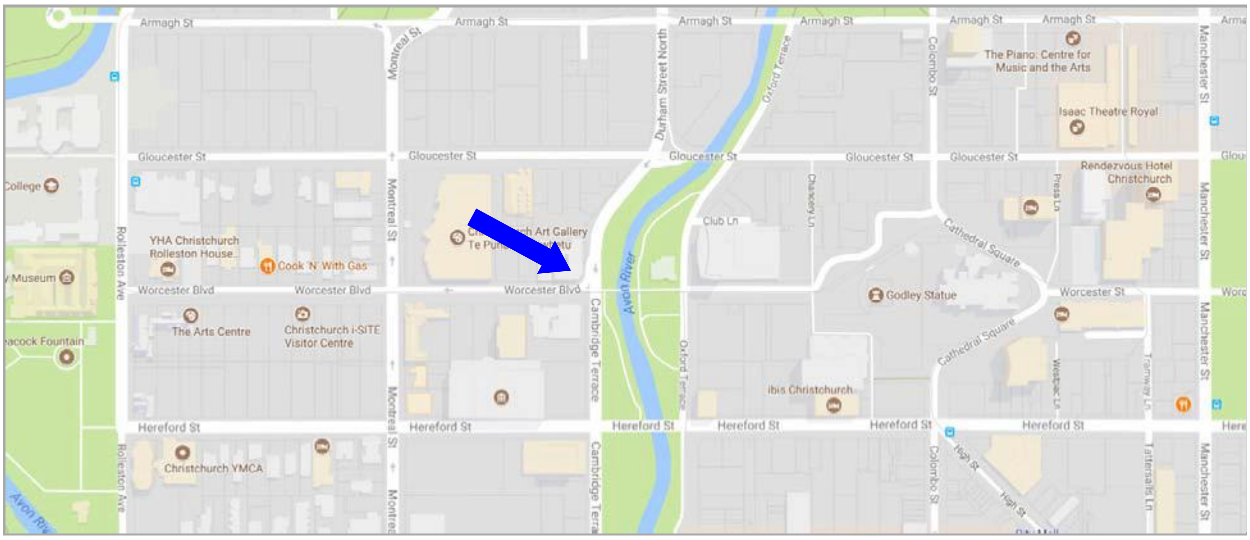
Suburb: CBD core.

Situation: The north-western intersection of Cambridge Terrace and Worcester Boulevard.

Location: This is an established and desirable CBD location, positioned to the north-western periphery of the core CBD, albeit separated by the Avon River which in turn offers a desirable visual amenity to the immediate area. The subject is in immediate proximity of all key CBD amenities in and includes high quality newly building office buildings with notable occupiers including, but not limited to Deloitte, Lane Neave, Meridian, BDO Spicers, PWC & EY.

On balance, we consider market participants would deem the location as excellent. Notwithstanding, the subject site does arguably suffer from less preferred south easterly aspect.

The following map indicates the location of the subject within the Central City:



2.2 SITE & SERVICES

Shape: Near rectangular, excepting corner splay.

Topography: Essentially level.

Site Area: 938 square metres

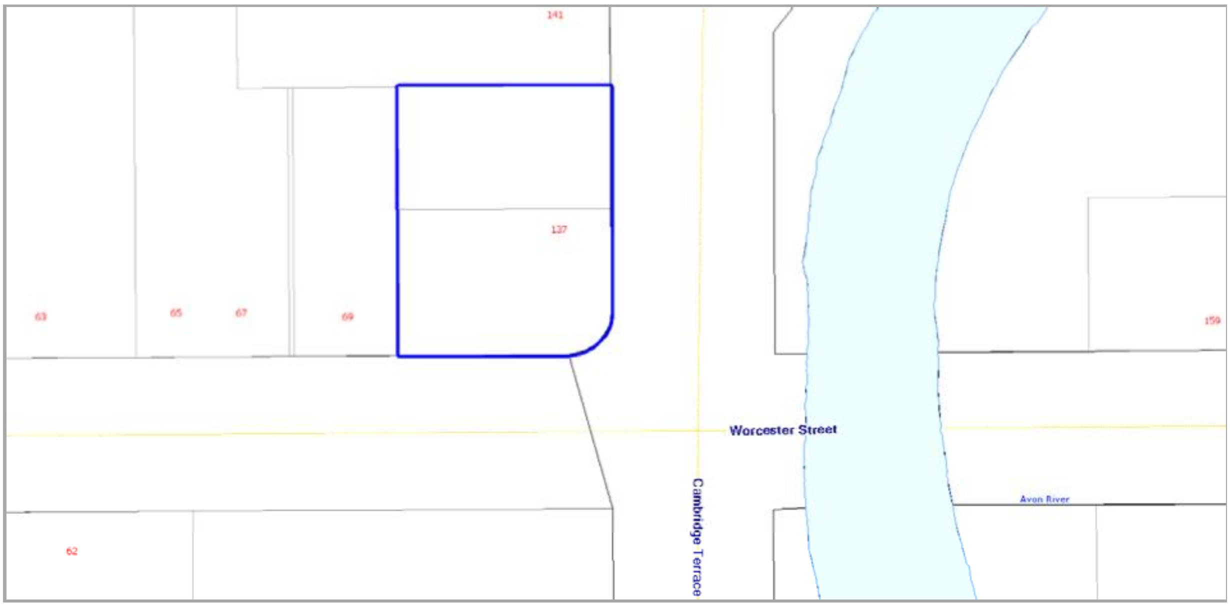
Street Frontage: Cambridge Terrace: 29.99 metres
Worcester Boulevard: 21.44 metres

Corner splay excluded.

Access: Pedestrian access is presently available off both street frontages. No vehicular access is presently provided for.

Services: Typical urban services appear connected or are assumed connected 'as if complete'.

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



2.3 LEGAL DETAILS

Real Property Description (Freehold)

- Part Lot 1 on Deposited Plan 6773, Computer Freehold Register Identifier CB18K/449.
- Part Lot 1 on Deposited Plan 6773, Computer Freehold Register Identifier CB18K/448.

Registered Owner

- Lee Pee Limited

Registered Interests

- Both Computer Freehold Registers are subject to Transfer 205608, creating reciprocal right of way easements with the neighbouring property to the west. The neighbouring property is also held by Lee Pee Limited, however same is not considered herein.

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 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).

2.4 RESOURCE MANAGEMENT

Local Authority: Christchurch City Council.

Zone and Local Plan: CB (Commercial Central City Business) under the Christchurch District Plan.

Zone Description: The Commercial Central City Business Zone provides for the consolidation of business activities while providing for a diverse mix of activities, and a vibrant place for residents, workers and visitors.

Existing Use: Appears to conform. The various proposed scenarios considered herein are understood to comply with the relevant Town Planning ordinances.

Heritage: Harley Chambers is listed as a significant Category 2 Heritage Listed building under the Christchurch District Plan.

2.5 RATING VALUATION

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

Land Value	*Improvements Value*	*Capital Value*
$3,300,000	Nil	$3,300,000

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 valuation does not consider the improvements 'as if complete' or the possible outcomes contemplated herein.

3 IMPROVEMENTS

Pre-earthquake damage, Harley Chambers comprised an appealing three level character building, originally dating from the circa mid 1920's with subsequent extensions in the early 1930's.

Accommodation offered comprised various small-medium office and commercial suites over each level with common access and toilet amenities. A number of the individual suites had been extensively fitted out by the various then occupiers, providing for medical/dental practice rooms.

The improvements were extensively damaged in the earthquake events of 2010/11 and presently await remediation and/or demolition.

We understand that in their present state, the improvements are of a seismic compliance rating of at or around 20% NBS and are therefore by definition of the Building Act 2004 deemed 'earthquake prone'. Certainly from a market perspective, a NBS rating in this order is detrimental to the marketability and end realisable value.

We have been requested to consider the market value under various scenarios noted as follows:

- Repair and strengthening to the existing Harley Chambers under 34%, 67% & 100% NBS scenarios
- Demolition and replacement with a modern replica, a modern replacement with retained façade and a new contemporary three level office building.

The following sub-sections refer the key improvement considerations under each scenario.

3.1 EXISTING HARLEY CHAMBERS STRENGTHENED TO 34% NBS

As noted within our valuation considerations detailed later, if strengthened to 34% NBS, we consider the market would not reward value above a level stated at land value less demolition.

Accordingly, no further consideration of the improvements under this scenario is required.

3.2 HARLEY CHAMBERS STRENGTHENED & REPAIRED TO 67% NBS

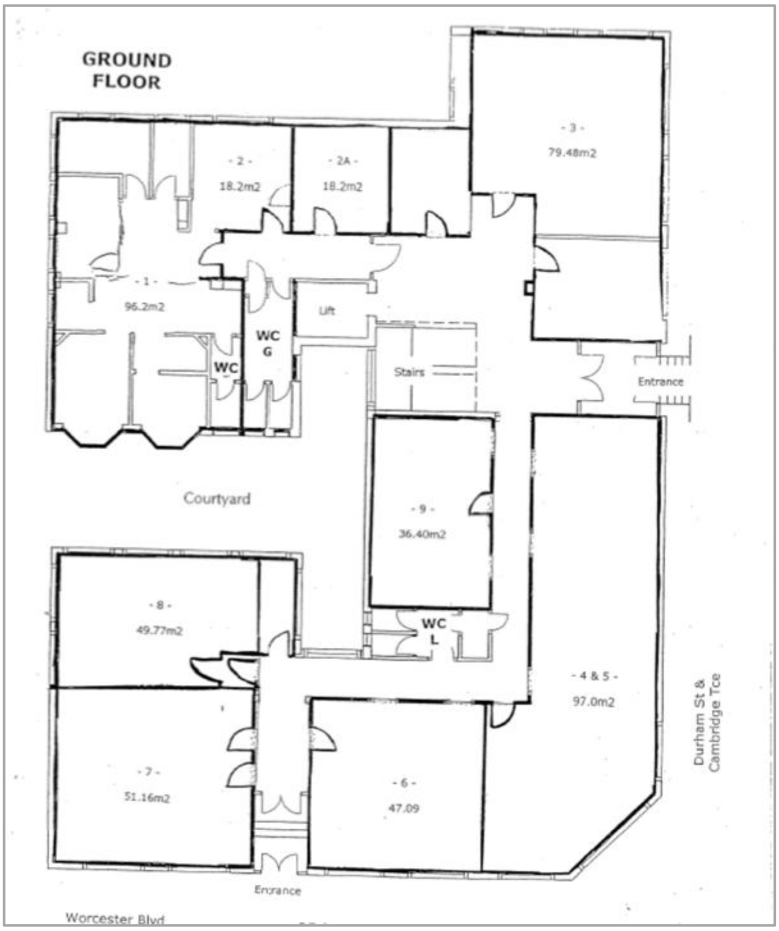
Under this scenario, the following key factors apply:

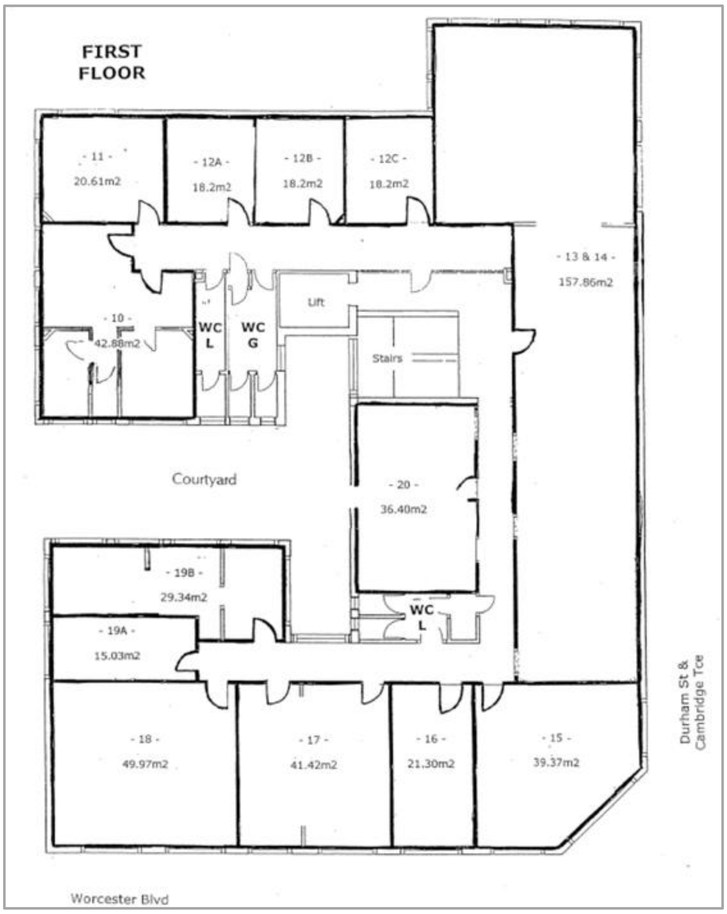
- Our valuation considerations assume seismic strengthening to a 67% NBS compliant level.
- We have assumed the repair and refurbishment programme maintains the existing configuration, that is provision of a total of 36 individual office suites over the ground, first and second levels, ranging in tenancy size from circa 15.0-150.0 sqm, averaging circa 40.0 sqm. Common access, circulation and toilet amenities in addition.
- We have assumed internal refurbishment, whereby individual office suites have new carpet floor coverings, painted hard lined wall and ceiling linings, appropriate lighting and air conditioning services throughout.
- Refurbished toilet amenities and staff cafeteria facilities.
- Pleasant views to those tenancies with south or east facing street elevations. Some internal tenancies suffering from limited natural light and views.

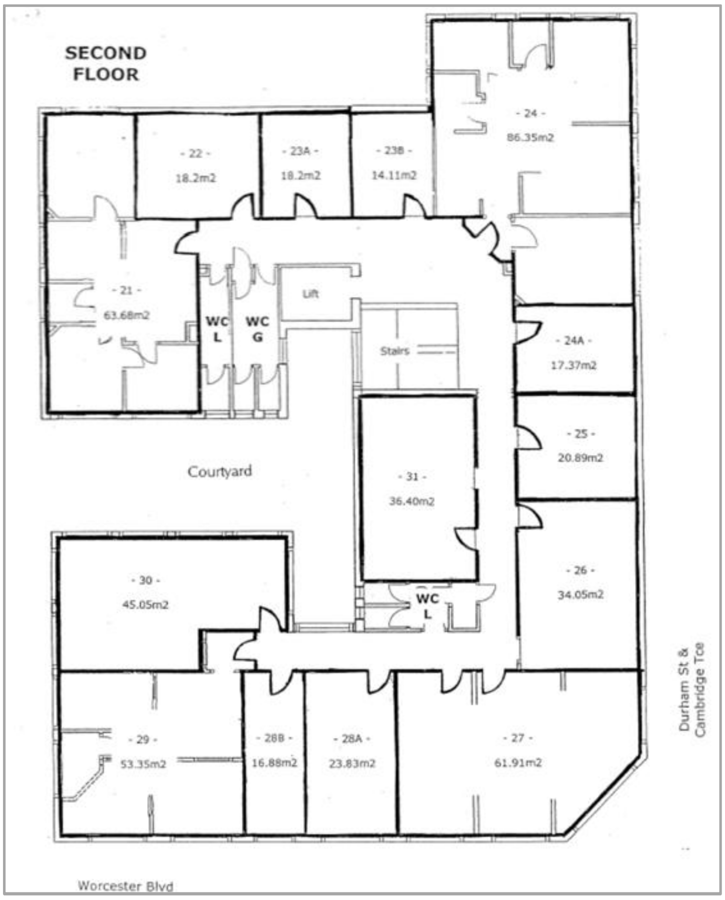
- No onsite carparking is provided. This is a strong requirement of occupiers and therefore a detriment to achieve tenants and ultimately impacts end value.
- Exterior cladding fabric remediated and painted, new roof linings if applicable.
- Overall, the intent of the repair and refurbishment programme being to provide a replication of the existing building with new linings and services where appropriate.

On this basis, the accommodation provided will be of a good market standard of refurbished office accommodation. Ultimately that standard would be something less than newly built space but exceeding the standard of accommodation within buildings that were retained following earthquake events but haven't been extensively refurbished. The accommodation would therefore be affordable priced and readily adaptable to a wide range of potential occupiers of small business nature.

A floor plan depicting layout and lettable area of each level of the existing building is as follows:




FIRST FLOOR
- 11 -
20.61m2
- 12A -
18.2m2
- 12B -
18.2m2
- 12C -
18.2m2
- 13 & 14 -
157.86m2
- 10 -
42.88m2
WC L
WC G
Lift
Stairs
Courtyard
- 20 -
36.40m2
- 19B -
29.34m2
- 19A -
15.03m2
WC L
- 18 -
49.97m2
- 17 -
41.42m2
- 16 -
21.30m2
- 15 -
39.37m2
Durham St & Cambridge Tce
Worcester Blvd


SECOND FLOOR
- 22 -
18.2m2
- 23A -
18.2m2
- 23B -
14.11m2
- 24 -
86.35m2
- 21 -
63.68m2
WC L
WC G
Lift
Stairs
- 24A -
17.37m2
- 25 -
20.89m2
Courtyard
- 31 -
36.40m2
- 30 -
45.05m2
- 26 -
34.05m2
WC L
- 29 -
53.35m2
- 28B -
16.88m2
- 28A -
23.83m2
- 27 -
61.91m2
Durham St & Cambridge Tce
Worcester Blvd

3.3 HARLEY CHAMBERS STRENGTHENED & REPAIRED TO 100% NBS

In practise, for all intents and purpose the asset remains as described above save for a greater seismic compliance.

The greater seismic compliance in the Valuer's opinion at this scale of the occupier market, that is small local businesses, is unlikely to affect occupancy decisions and end rental income that can be derived for the reason that 67% NBS is acceptable to these occupiers and the end utility of the space from an affordability and business operation perspective is unchanged if the improvements were 100% NBS.

From an ownership perspective, the greater level of seismic compliance between 67% NBS and 100% is preferred however ultimately not material to the marketability or realisable value of the asset.

3.4 PROPOSED REPLACEMENT REPLICA BUILDING

Under this scenario, it is proposed to demolish the existing structure and replace with a modern three level building with a modern equivalent façade.

Key improvement variables are noted as follows:

- Replication of gross floor area of 2,281 sqm over three levels
- Extrapolating same, we have estimated a net lettable area (for rental analysis purposes) that equates 2,100 sqm (that is a ground floor lettable area of 500.0 sqm, two upper office levels of 800.0 sqm).
- Provision of carpeted open plan floors including base building services such as lighting and air-conditioning as well as appropriate toilet amenities to each level.
- Pleasant views as noted however same impacted by the current façade layout limited glazing, natural light and views.
- No onsite carparking a detriment as previously described.
- We assume compliance with 100% NBS.

On balance, by direct comparison to the previous repaired to 67% or 100% NBS scenario's, we are considering a newly built asset, albeit with similar external appearance by virtue of the replica façade. Notably the internal accommodation will therefore be of superior standard however without the intensive internal partitioning into various smaller suites.

3.5 PROPOSED REPLACEMENT BUILDING, EXISTING FAÇADE RETAINED

Under this scenario, we are ultimately considering the above replica building scenario however same being constructed within the confines of the existing façade.

Lettable floor areas adopted remain consistent with the replica building scenario noted above.

We again assume compliance with 100% NBS.

3.6 PROPOSED REPLACEMENT THREE LEVEL BUILDING

Under this scenario, we consider the existing improvements demolished and a replacement three level building of contemporary standard built in its place.

The following salient factors apply:

- An appealing contemporary office building of average market standard, not superior nor inferior, akin to neighbouring buildings such as 299 Durham Street occupied by Mortlock McCormack Law or the Awly Building.
- Configuration comprising ground level entrance foyer, subsequently two ground tenancies of quasi retail nature with upper level open plan office floors.
- We adopt consistent lettable floor areas with the modern replica previously noted, that is 2,100.0 sqm NLA.
- We have assumed the internal tenancies provided on a carpeted open plan basis inclusive of core building services such as lighting and air conditioning.
- Pleasant localised views to the upper levels over the river Avon. By comparison to previous scenarios, unencumbered by existing façade, therefore increasing views and natural light.
- Lift access to upper levels.
- Our valuation considers a newly built office tower, therefore compliant with minimum 100% NBS.
- No onsite carparking.
- Overall, a desirable office building in a sound location akin to newly constructed office towers in immediate proximity.

4 MARKET CONSIDERATIONS AND EVIDENCE

4.1 OFFICE RENTAL MARKET COMMENTARY & EVIDENCE

4.1.1 Market Supply

The Christchurch office market remains fluid in terms of the supply of available stock and indeed occupier demand.

Immediately post-earthquake events, and not surprisingly following that circa 85% of the pre-quake CBD office stock was demolished, we have witnessed the refurbishment and construction of a significant level of new office product particularly along the western fringe of the core CBD to the western side of the Avon River along Durham Street and up through Victoria Street.

Initially, there was solid demand for such space, particularly from top tier tenant covenants looking to re-establish themselves within the central city. Currently however we are faced with a supply/demand imbalance where it is clear we are in an over-supply situation relative to the level of stock that has been or remains under construction.

In the absence of a material volume of transactions occurring to definitively confirm market sentiment, we actively survey available stock (by building and occupancy) within the core central city market. We last completed a full survey in late 2016, the following referring a summary of our findings.

SIMPLIFIED CBD OFFICE SNAP SHOT BY BUILDING STATUS			
STATUS	Existing & Operational, New Build Complete & Under Construction (sqm)	Existing Unknown Status & Proposed (sqm)	Maximum Potential (sqm)
Total Stock	241,200	24,900	266,100
Occupied / Tenant Commitment	195,800 81%	0	195,800 74%
Vacant Space	45,400 19%	24,900 100%	70,300 26%

We have grouped together the existing and operational buildings (those buildings that existed pre-earthquake events and remain occupiable), buildings that have been completed post-earthquake events and those that are currently under construction. Whilst the latter is not immediately available for occupation, it is stock that is available and is under consideration by potential occupiers in the market.

Combined, at the time we determined the available volume of office space in this category at 241,200 sqm. Tenant commitment had been secured for 195,800 or 81% whilst the residual 45,400 sqm or 19% was vacant.

Whilst as at today these specific numbers are likely to have altered, as several new buildings have been added and some absorption occurring, we consider the volume of vacant office space at circa 40,000 – 45,000 sqm still to be an accurate reflection as at today. We estimate there has been in the order of 20,000 sqm of absorption since our survey which is viewed as positive however the supply of vacant stock in this category has increased by virtue of several buildings shifting from what were previously considered proposals at the date of last survey to now being under construction, examples being 123 Victoria Street and the Spark Building at Hereford Street / Cathedral Square.

In addition, at the date of survey, we estimate a further 24,900 sqm is proposed however we consider the likelihood of this eventuating, certainly in the short term, is unlikely unless significant tenant pre-commitment can be achieved. An example of this is again the Spark Building at Hereford Street/Cathedral Square, a building that is being designed and built for a specific occupier that would not have eventuated unless desired by Spark.

Moreover, these quanta are ever changing as various proposals are either added to the table or removed and is accordingly treated with caution.

Regardless of the percentage of vacancy 40,000-45,400 sqm is a significant volume of space for the local market to absorb.

Moving forward therefore, the key market dynamic is the volume of vacant space that exists, set within the environment of an ever-decreasing pool of tenants (particularly top tier), leaving an arguable disconnect with the next tier of tenant covenant that can realistically afford such space.

Accordingly, Landlords, particularly those with significant volumes of vacant space still to backfill, are becoming increasingly competitive. Tenants have now obtained the balance of bargaining power, certainly relative to recent years.

That said, the resultant decrease in net effective rentals has made CBD space more affordable and arguably opened the door for previous 'B' grade occupiers, (currently located in the suburban market), to reconsider the central city as a viable option.

4.1.2 Rental Levels

Immediately post-earthquake events there was a significant shortfall in supply and this coupled with the new build nature of development (and the subsequent construction costs) within the CBD fringe resulted in a significant increase in the base rental rates being achieved. Whilst exceptions are noted, typically the rental rates for new build product within the central city ranged $375.0-$425.0 per sqm net. This remained in place for a considerable period.

The current over-supply scenario has resulted in considerable pressure on Landlords looking to lease vacant space with this impacting directly on the base rental levels. Primarily this is by way of incentives however face rentals have also softened.

Further, making market interpretation fundamentally difficult is that there has been a dearth of new rental transactions occurring in recent quarters, particularly of significance. Those that have occurred exhibit limited consistency, in our opinion reflective of longer lead in times to complete leasing transactions (therefore some historic influences, with instances of the rental being agreed a considerable time ago) and indeed individual landlord circumstances / willingness to secure occupiers.

Undoubtedly there is now a measure of market acceptance of softening achievable rental levels and incentives in the market, however exceptions to this remain being buildings in 'key' or prime locations.

By way of example we are aware of a prime site that was required for a specific tenant's business profile/image where rental continued to be negotiated in the order of $400.0 per sqm reflecting the return a developer required for construction feasibility, otherwise the space would not have been available to the tenant.

On balance, base rental levels for new build product are softening on the back of incentives. It remains too early to exhibit any great measure of consistency as to treatment and is reflective of either, or a combination of, the following:

- Softer face rentals, now arguably within the $325.0 - $375.0 per sqm range however arguably this excluding prime or key sites. For clarity, this is the contract rent paid prior to adjustment for incentives. Once incentives are factored in, the effective rental is less.
- Incentives by way of rent free periods diluting the effect of the face rental agreed. We have witnessed examples where circa 1.0 – 2.0 months per year have been provided.
- Fitout packages, although there are limited examples to our knowledge.
- It is more difficult to negotiate fixed growth, however fixed growth does remain in the instances of softer commencing rentals or where significant rent free may be provided (this assisting to dilute any rent discount on a net effective basis).
- Capping of operating expenses.

We are now faced with a challenging scenario as to interpreting current base rental levels in that we have ample historical evidence, typically at higher rates per square metre, however the majority are no longer achievable.

We are cognisant of current market sentiment and a reasonable level of anecdotal evidence as to incentives offered in the market place and the impact that has placed on base rental levels, together with some incentivised leasing agreements.

Overall however, there has been limited more recent office lettings to rely upon which firmly indicate the current state of the office market and the rental levels achieved. The net effective rental (after the deduction of incentives) range for this general western CBD location appears to fall in the range of $300.0-$350.0 per sqm.

4.2 RENTAL EVIDENCE

As we are considering multiple valuation scenarios including where Harley Chambers is retained we have considered rental transactions of comparable small office suites as per the current building configuration.

We are also considering valuation scenarios for proposed replacement office buildings on the premise of open plan floor plates as is market convention. In this regard, we have had regard to recent leasing evidence of office tenancies on this basis.

The following sub-sections refer:

4.2.1 Rental Evidence – Existing Office Buildings & Office Suites

Within this market sub-sector, there is a dearth of transactional evidence to consider. The reason is two-fold. Firstly, the large majority of pre-earthquake buildings have been removed from consideration, thus reducing the pool for comparison purposes. Secondly, there is more limited provision of small office suites with the CBD market place.

The following table refers to transactional evidence available for consideration:

Property	Tenant	Accommodation	Area (sqm)	Rate $psm	Date	Annual Rent
52 Oxford Terrace Fringe CBD	Hampton Jones	Level 3	265	$228.68	Jul-17	$71,865
		Balcony	131	$34.30	*Commening Rent - NER*	
		Store	30	$50.00		
		Carparks	2	$50.00		
		Total Area	**265**	**$270.87**		
	Kite	Level 2	418	$212.75	Jul-17	$88,930
					Commening Rent - NER	
AEQ House 61 Cambridge Terrace	Seamount Advisory Limited	Ground Floor Office Suite	60.7	$297.77	Apr-16	$20,400
			1	$45.00	Commencing Rent	
	Three Sixty Architecture Limited	Level 1 Office Suite	123.1	$260.00	Jan-16	$39,023
			3	$45.00	Commencing Rent	
225-227 High Street Central City	Various Office Suites	Level 1 & 2	17	$307.69	Mar 16	$16,000
			12	$231.15	Mar 16	$12,012
			12	$240.00	Apr 16	$12,480
			13	$240.00	Jul 15	$12,480
			15	$260.00	May 16	$13,520
			50	$600.00	Jun 15	$31,200
			17	$264.00	Jul 15	$13,728
			30	$384.62	Dec 14	$20,000
			50	$600.00	Jul 13	$31,200
			26	$350.00	May 15	$18,200
Equitable House 77 Hereford Street	Brother	Office	324	$261.97	Oct-15	$88,055
		Carparks	1	$60.00	*Commencing Rent - NER*	
196 St Asaph Street Central City	Amicus Brokers	Ground Floor	186.9	$254.00	Mar-15	$136,278
		First Floor	294.9	$250.00	Commencing Rent	
		Carparks - Single	3	$30.00		
		carparks- Stacked	8	$25.00		
Kensington House Manchester Street	Digital Operative	Office Suite 3	31	$554.51	Late 2015	$16,275
		Total	**31**	**$525.00**	*Commencing Rent*	
	The Media Dept Limited	Office Suite 5	76	$317.00	Late 2015	$24,150
		Total	**76**	**$317.35**	*Commencing Rent*	
	Blueprint	Office Suite 6	50	$414.02	Late 2015	$20,825
		Total	**50**	**$414.02**	*Commencing Rent*	
265 St Asaph Street Central City	One World Resourcing	Office	58	$361.20	Nov-14	$21,000
					Commencing Rent	
95 Oxford Terrace Central City	Bradely Nuttall	Office - Level 1	231	$265.00	Jul-14	$64,335
		Carparks	2	$30.00	*Commencing Rent*	

As can be seen, rental rates for larger tenancies within the existing office stock sector, typically lie within the range of $225.0-$275.0 per sqm, exceptions both above and below are acknowledged.

On a per-square-metre basis, small office suites exhibit a significantly higher range, anywhere from $400.0-$800.0 per sqm.

Importantly, the rate per square metre is not the key occupancy decision for tenants, whereby small business occupiers of these tenancies consider rental on a total occupancy cost basis, often weekly. On this basis, rates for office suites fall within the range of $200.0-$500.0 per week. The subsequent rental rate per square metre falls where it may.

4.2.2 Rental Evidence – Newly Constructed Office Towers

Recent transactions available for ourselves to consider within the newly constructed office building sector, are summarised in the following table:

Property	Tenant	Accomm	Area (sqm)	Rate $psm	Date	Annual Rent
West of The River Precinct	Confidential	Office	1,594.0	$350.00	Q4 2016	$658,166
Christchurch CBD		Balcony	56.1	$105.00	*Proposed Comm Rent - Face*	
		Carparks	22	$65.00		
		Naming		$20,000		
		Office	1,594.0	$291.04	Q4 2016	$548,250
		Balcony	56.1	$87.31	*Proposed Comm Rent - NER*	
		Carparks	22	$55.00		
		Naming		$16,500		
North West Corridor	Confidential	Level 3	535.9	$365.00	2016	$209,904
Christchurch CBD		Open Carprks	5.0	$55.00	*Commencing Rent - FACE*	
		Level 3	535.9	$320.0 - $340.0	2016	
		Open Carprks	5.0	$50.00	*Commencing Rent - NER*	
	Confidential	Level 2	544.7	$365.00	2016	$204,536
		Open Carprks	2.0	$55.00	*Commencing Rent - FACE*	
		Level 2	544.7	$320.0 - $340.0	2016	
		Open Carprks	2.0	$50.00	*Commencing Rent - NER*	
Victoria Street	Accountancy Practise	Level 4 - Office As Open Plan	1,618.5	$318.71	Apr-16	$500,000 +
Christchurch CBD		Level 4 - Fitout		$68.86	*Commencing Rent - NER*	
		Level 4 - Total As Fitted Out		$387.57		
		Level 4 - Balcony	45.5	$100.00		
		Carparks - Secure	5.0	$65.00		
		Carparks - Open	5.0	$55.00		
Confidential Proposed Building	Confidential	Levels 1-6	470.0	$365.00	Face Rent	Jun-16
CBD Core				$330.0 - $340.0	Net Effective	
Confidential	Law Firm	Offices	600.0	$365.00	Jun-16	$250,200
Northern CBD Fringe		Open Carparks	15.0	$40.00	*Commencing Rent - FACE*	
		Offices	600.0	$320.00	Jun-16	$223,200
		Open Carparks	15.0	$40.00	*Commencing Rent - NER*	
Awly Development	Meridian	Offices	4,000 +		Aug-15	$1,400,000
Durham Street			Face Rent	$350.00	*Commencing Rent*	
			Net Effective	$275.0 - $310.0		
Cashel Square	Cavell Leitch	Offices	2,000		Late 2015	
CBD Core			Face Rent	$350.00	*Commencing Rent*	
			Net Effective	$275.0 - $310.0		
	BNZ	Offices	2,951	$375.00	Early 2014	$1,297,385
		Balcony	196	$180.00	Commencing Rent	
		Carparks	46	$65.00		
299 Durham Street	Mortlock Mcormack Law	Level 2 - Office	873.0	$375.00	Jul-15	$372,315
Christchurch CBD		Naming Rights		$7,500	*Commencing Rent - FACE*	
		Carparks - Open	12	$60.00		
		Level 2 - Office	873.0	$344.44	Jul-15	$335,012
		Naming Rights			*Commencing Rent - NER*	
		Carparks - Open	12	$55.00		

We have given consideration to a number of recent transactions within immediate proximity of the subject, however given the sensitive nature of some, we are unable to disclose building and tenant details in some instances. That said, we can confirm the majority of the above transactions all lie within a cluster of buildings in immediate proximity of the subject site and are accordingly of strong comparability.

Rental rates range $350.0-$375.0 per sqm, exceptions both above and below on a commencing face rent basis.

Importantly, this is a face rental before the introduction of incentives which must be factored into the analysis. Accordingly, our analysis of the net effective rents after deduction of incentives, often 1-2 months per calendar year of lease term, lie within the range of $280.0-$330.0 per sqm.

For clarity, the above rental analysis pertains to a carpeted open plan tenancy inclusive of core building services. Any fitout such as office partitions, meeting rooms and/or boardrooms are analysed in addition.

4.3 INVESTMENT MARKET COMMENTARY

The impact of economic and monetary trends on the property market is evident as they influence the occupational and investment demand for property, as well as the returns investors require from property investments.

Although global geopolitical risks are mounting, New Zealand's economic growth momentum is currently one of the strongest amongst developed economies. Much of this strength is being generated domestically, although commodity prices are also becoming increasingly supportive. The growth impetus of migration and its impact on housing, consumption and the wider service industries is mainly felt in Auckland, but secondary benefits have also trickled to other larger population centres including Hamilton, Tauranga and Wellington.

While growth is positive, its domestic drivers look to be unsustainable much beyond 2017. Migration growth rates are likely to have peaked and housing supply starting to increase, lessening the pressure on future price increases. The labour market remains strong for skilled workers, but wage pressures have been low due to the volume of migration. Growth expectations for 2017 are in the 3% - 4% range, at or above 2016 levels. For 2018 and beyond, growth expectations fall as economic drivers are forecast to weaken, but economists' predictions of GDP remain reasonably healthy in the global context.

From a commercial property perspective, strong demand prevails for prime or good quality stock where all key investment attributes are in place including adequate NBS percentage ratings, medium to long term collateral lease security and strong and maintainable cash flows. There is a lack of quality purchase opportunity in the market resulting in those properties that have transacted being well contested with low yields/benchmark values resulting. The small investor in particular has been hampered, creating syndication opportunity and also explaining the fixation for residential investment.

While there remains good demand for secondary stock, the gap between prime and secondary property yields remains. For the higher value assets, there is generally good awareness of risks and any property class subject to immediate vacancy, low tenant demand, or alternatively low NBS percentages (particularly below 67% NBS) have proven less attractive to the market and more difficult to transact. The resulting sale prices/achieved yields are reflective of this however there is a paucity of transactions noted in this category to definitively confirm the applicable discount from a prime asset.

The management of the OCR by the Reserve Bank has a significant impact on the cost of borrowing and this has been a major contributor to the low relative property yields and high volume of real estate transactions. The OCR peaked at 8.25% in July 2007 but since October 2008 has seen progressive and marked reductions to a historically low 1.75% in November 2016.

The Reserve Bank stance is a balancing act, a mandate through monetary policy to stimulate the economy, but not excessively so, at times of low inflation expectation and/or low growth and an uncertain global economic market. This required stimulus is unlikely to change within the short to medium term. Most market commentators are of the view that further reductions in the OCR are unlikely in the near term. In recent months' financial market conditions have become increasingly complex with local short term retail interest rates decoupling somewhat from the OCR, long term interest rates becoming influenced by rising global risk premiums and higher inflation expectations, and bank's increasingly rationing capital. New

Zealand financial institutions are net borrowers in overseas financial markets, particularly so with insufficient deposits at a micro level, and are facing increases in the cost of their offshore borrowing. The monetary dynamics of ready debt availability and low cost of same that have underpinned firming yields over the last three years appear to have run their course.

Nonetheless, whilst credit remains available and borrowing costs remain low in historic terms, term deposit rates and equities continue to provide low relative yields as investment alternatives, and the New Zealand economy enjoys some global buffer, then property demand will remain buoyant. However, should there be a major deterioration in economic conditions coupled with both an increase in funding costs and reduction in liquidity then the current cyclical high in property values will be at risk and investment yields will soften.

Whilst we are not aware of any risk currently being factored into investment decisions, the major trading banks are taking a more conservative stance on property lending; particularly development funding including land and speculative ventures unsupported by pre-sales or lease. Furthermore, there are trading banks who are currently constrained by an over exposure to commercial property and to the Auckland, Sydney and Melbourne apartment markets to the extent that their lending is currently very limited. Whilst for the moment sales are not indicating any direct impact on property values, investments sales activity is down and the general sentiment is that the market has peaked.

4.4 INVESTMENT SALES EVIDENCE

Recent investment sales transactions within the CBD market place available for us to consider, are summarised in the following table:

Property	Sale Date	Sale Price	Initial Yield	Equivalent Yield	Market Yield	$psm Lettable Area	WALE (yrs)
Duncan Cotterill Building 148 Victoria Street	Jul-17	$24,000,000	7.10%	6.72%	6.24%	$6,472	7.50
PWC Centre 52-64 Cashel Street	Jun-17	Circa $49.0 mill	Confidential - Sub 7.00%			$6,000 - $6,500	Circa 8.5
AEQ House 61 Cambridge Terrace	Apr-17	$2,285,000	6.97%	8.82%	11.79%	$2,525	2.00
TVNZ Building 31 Dundas Street, Central City Fringe	Jan-17	$7,003,840	6.25%	6.41%	6.50%	$5,275	4.00
CDHB Premises, 32 Oxford Terrace Health Precinct, Cental City	Nov-16	$40,000,000	6.00%	5.96%		$5,923	11.70
Telogis Building, 104 Victoria Street Central City	Nov-16	$18,000,000	8.00%	7.35%		$5,488	7.30
Combined		*$58,000,000*	*6.62%*	*6.39%*		*$5,781*	*10.05*
69 Worcester Boulevard Christchurch CBD	Sep-16 Sep-15	$2,180,000 $2,300,000	- 0.56%	6.88% 8.24%	7.64% 9.33%	$2,946 $3,108	Vacant 0.50
122 Victoria Street Central City	May-16	$3,570,000	7.82%	8.35%	8.55%	$4,062	3.42
131-133 Victoria Street Central City	Mar-16	$11,000,000	6.90%	6.54%	6.46%	$5,227	5.00
Tudor House / Ex Tiffany's Restaurant 95 Oxford Terrace, Central City	Mar-16	$2,900,000	4.92%	5.64%	5.70%	$6,243	1.75
323 Madras Street Central City Fringe	Nov-15	$6,800,000	7.46%	7.15%	7.00%	$4,811	6.10

With respect to newly constructed office towers, recent transactions of the Duncan Cotterill building at 148 Victoria Street and the PWC Centre at 52-65 Cashel Street, are of most significance in considering the market value to the proposed replacement office tower albeit certainly the PWC Centre is of greater investment scale.

The Duncan Cotterill building transacted for $24.0 million, whilst the PWC Centre transaction is confidential to CBRE, however has been reported in the media at circa $49.0 million.

We are unable to report the yield analysis of the PWC Centre however confirm we have full knowledge of same which is below 7.00%.

The Duncan Cotterill building analyses to a passing yield of 7.10%, however the contract rental is considered above market. The equivalent yield analyses to 6.72%, allowing for rent reversions, alternatively 6.24% on market.

There is a consistent basis of analysis in the range of circa $6,000-$6,500 per sqm, of lettable area. Both buildings have weighted average lease terms in the range of 7.5-8.5 years.

Other larger new build or good quality office assets that transacted November 2016 include the CDHB premise at 32 Oxford Terrace and the Telogis Building at 104 Victoria Street. Individual analyses of the sale prices differ, however notably they were bought as a single transaction and are not mutually exclusive. The CDHB premise was agreed at a passing yield of 6.00%, the Telogis building at a yield of 8.00%. Combined, the yield equated 6.62%.

With respect to consideration of the Harley Chambers building on a repaired and strengthened basis, we note the sale of 131-133 Victoria Street, which transacted March 2016 for $11,000,000 on a similar basis. This is an earthquake damaged and refurbished building, strengthened to 67% NBS. The property was fully leased with a five-year weighed average lease term applicable at the date of sale. The yield analysis equates a passing yield of 6.90%, and an equivalent yield after rent reversions of 6.54%.

We note the sale of the heritage listed Worcester Chambers at 69 Worcester Boulevard for $2.30 million and then $2.18 million in 2015 and 2016 respectively. The later sale analyses to a yield on market rent of 7.64% as vacant. We consider this an aggressive yield relative to the difficulty in securing tenants for this building exhibited by a lengthy and ultimately unsuccessful leasing campaign by two different owners. Arguably however, the purchase price is influenced by adjoining owner negotiation.

On balance, conclusions that we are able to reach are as follows:

- A prime office asset that is well located, of good new build improvement quality and well leased with strong tenancy profiles can attract a yield in the range of 6.50% - 7.00%.
- Lesser however sound assets, akin to the Harley Chambers repaired and either 67% NBS or 100% NBS would lie within the range of 7.00% - 7.50%

4.5 LAND SALES EVIDENCE

In support of our land value considerations within the Harley Chambers strengthened to 34% NBS scenario, we sight the following land sales transactions:

Christchurch CBD Land or Redevelopment Site Sales					
Address	Sale Date	Sale Price	Area (sqm)	Rate ($psm)	Zoning
2 Cathedral Square	Jun-17	$6,650,000	1,371	$4,850	CCB
32 Cathedral Sq & 148 Gloucester St	Apr-17	$7,126,000	2,037	$3,498	CCB
Alternatively	*32 Cath. Sq*	*$3,874,470*	*1,025*	*$3,780*	
	148 Gloucester	*$3,251,530*	*1,012*	*$3,213*	
88 Worcester Street	Mar-17	$3,000,000	1,027	$2,921	CCB
23 Lichfield Street	Jul-16	$2,900,000	1,024	$2,832	CCB
78 Cashel Street	Jul-15	$2,940,000	523	$5,621	CCB
2 Cathedral Square (Inc Demo)	Jun-15	$4,500,000	1,383	$3,254	CCB
135-141 Hereford Street	Jun-15	$1,800,000	916	$1,965	CCB
	Combined	$6,300,000	2,299	$2,740	
55 Chester Street West	Jun-15	$3,200,000	1,236	$2,589	CCB
208-210 Oxford Terrace	May-15	$4,373,670	1,088	$4,020	CCB
76 Hereford Street	Jul-14	$2,148,000	532	$4,038	CCB
96-98 Oxford Terrace	Oct-13	$4,800,000	1,557	$3,083	CCB
82-86 Cashel Street	Sep-13	$7,450,000	2,020	$3,688	CCB
299 Durham Street	Feb-13	$1,050,000	505	$2,079	CCB
303 Durham Street	Feb-13	$955,800	531	$1,800	CCB
71 Armagh Street	Mar-13	$988,000	513	$1,926	CCB
Total - 299 Durham Street		$2,993,800	1,549	$1,933	
51 Chester Street West	Apr-13	$2,536,000	1,263	$2,008	CCB
151 Cambridge Tce & 84 Gloucester St	Dec-12	$3,500,000	1,173	$2,984	CCB

From the outset, in the context that the subject offers a prime corner position to the immediate fringe of the core CBD with Avon River frontage, we must acknowledge a dearth of directly comparable transactions.

By way of synopsis, prime sites lie within a range of $4,000 - $5,000 per sqm, strongly located premises within the range of $3,000 - $4,000 per sqm where as standard sites with no special attributes range say $2,000 - $3,000 per sqm.

2 Cathedral Square refers the ex-ANZ site with north facing frontage into Cathedral Square, south facing frontage to Hereford and Colombo Streets. The property sold by way of public auction in June 2017 for $6.650 million reflecting $4,850 per sqm. We consider this site superior and establishes an upper limit.

32 Cathedral Square and 148 Gloucester Street refers the ex The Press head office site which sold April 2017 to a hotel developer for circa $7.125 million, reflecting an overall rate per square metre of $3,500 per sqm. This site refers two separate titles, one a prime site within Cathedral Square, and one a secondary site fronting Gloucester Street. We alternatively analyse the individual sites at circa $3,800 per sqm to the Cathedral Square site, $3,200 per sqm to the Gloucester Street site. We consider the Cathedral Square site comparable, the Gloucester Street site inferior.

88 Worcester Street refers to the ex-Holy Grail site with north facing frontage to Worcester Boulevard, in immediate proximity to Cathedral Square. Close proximity with the subject is noted, albeit locational attributes differ. On balance, we prefer the subject.

Whilst dated, we note the sale of 76 Hereford Street, the ex-Royal Sun Alliance House site, now Fat Eddies et al, at the intersection of Hereford Street and Oxford Terrace. This is a preferred corner position with north west Avon River facing frontage forming part of 'The Strip' hospitality precinct. This property transacted in July 2014 for $4,000 per sqm. We consider this property superior.

5 VALUATION – HARLEY CHAMBERS IF STRENGTHENED TO 34% NBS

5.1 VALUATION RATIONALE

Under this scenario, we have been requested to consider the market value on the premise that strengthening works were completed to the existing Harley Chambers building to equate only a 34% NBS seismic rating.

To achieve 34% NBS, Aecom have concluded a construction cost of $12.800 million.

The 34% NBS seismic rating is significant as the market perception from both an investment or occupational viewpoint is poor where participants typically require minimum 67% NBS seismic compliance. Therefore spending $12.800 million to achieve same is nonsensical.

Notwithstanding cost, firstly, from an ownership viewpoint, obtaining bank funding where less than 67% NBS is apparent is particularly challenging, and likely prohibitive to achieving a sale of the property on this basis. Therefore, the approach likely to be taken by market participants to derive value, and how the main banking institutions would treat their lending decisions, would be on the premise of the asset strengthened to at least 67% NBS, less the associated cost to achieve same (which would have to be robustly derived), together with a development margin. Latter sections of this report demonstrate this is not economically feasible.

Accordingly, the only way market participants can consider value to the asset subject to a 34% NBS seismic rating, is value based on the underlying core land value, less associated demolition cost to achieve same. That said, given the improvements are heritage protected, there is risk surrounding securing the right to demolish the improvements and clear the site and any purchaser must factor this in within their purchase decision.

Quite apart from our consideration of appropriate market value treatment on the assumption that the improvements were strengthened to 34% NBS, from an investment viewpoint, any owner would then be required to lease the space on this basis to achieve rental income. The 34% NBS rating is prohibitive of securing tenants, certainly those of merit who would be prepared to agree to long long-term lease commitment to facilitate regular income streams.

By way of example, we sight AEQ House at 61 Cambridge Terrace in close proximity, this being a pre-earthquake building with a seismic rating of at or about 34% NBS. The upper office floors were presented on an appealing basis with river views, however have been vacant for an extended period, circa 24-36 months, in early parts through a time where there was a shortage of office space for participants to consider. No tenants have been willing to lease the space, a significant distraction being the 34% NBS seismic rating.

5.2 VALUATION CONCLUSION

Our approach to valuation of the asset subject to 34% NBS seismic rating is to consider the underlying land value, less associated costs of demolition.

However importantly, any participant considering the asset on this basis faces the challenge of being able to demolish a Heritage listed building. Accordingly, we consider it appropriate to apply a profit and risk margin, together with a deferral for a period of time that pragmatically applies for any owner to achieve a vacant development site.

We consider the underlying unencumbered land value lies within the range of $3,500 - $4,000 per sqm, ourselves concluding at a midpoint of $3,750 per sqm.

We have adopted the demolition allowance as provided to us by Aecom (excluding the façade retention), at $456,000.

We have adopted a profit and risk allowance of 12.50% and deferred the land value for a 15 month period at an opportunity cost discount rate of 7.00%.

The following refers:

MARKET VALUE ASSESSMENT - 34% NBS					
	Site Area		$ per sqm		
Unencumbered Land Value (Bare Site)	938 sqm	@	$3,500	$3,283,000	
		@	$4,000	$3,752,000	
			SAY		$3,520,000
Less Adjustments					
Demolition (Dormer Quote, Excluding Façade Retention)				($456,000)	
Profit & Risk - Current Heritage Classification		@	12.5%	($391,111)	
Land Value Deferral	15 months	@	7.0%	($285,457)	
					$1,132,568
Subtotal					$2,387,432
MARKET VALUE 34% NBS				SAY	$2,375,000
				Resultant $ per SQM Land Area:	$2,532

As can be seen, we conclude the unencumbered land value at $3,520,000.

After deduction for demolition, profit and risk and land value deferral, the market value 'as is' equates $2,375,000.

Alternatively put, the value 'as is' is the price that one would be prepared to pay for the asset with the current Heritage listed building in situ and both consent and physical works required to demolish the improvements.

6 VALUATION – HARLEY CHAMBERS REPAIRED & STRENGTHENED TO 67% NBS

6.1 VALUATION METHODOLOGY

Appropriate valuation methodology for income producing real estate is known as either the income or capitalisation approach. It is also a market accepted benchmark through which investors or buyers determine their actual or potential return.

Current investment value is derived from the estimate of prospective income to be received, capitalised at an appropriate market derived rate to convert the quantum of investment income into a present capital sum.

The derivation of market rent is achieved by direct comparison to rental transactions of comparable premise in the appropriate market place.

The derivation of the appropriate capitalisation rate can involve highly sophisticated techniques, but in essence reflects the rates of return actually being achieved for comparable investments in the market.

More particularly, the capitalisation approach is a static income based valuation methodology, whereby market rental is capitalised into perpetuity at an appropriate capitalisation rate (or yield), with adjustments to reflect individual tenancy profile including contract rental variations relative to market, costs of leasing any vacant space, and any required capital expenditure.

Therefore, our valuation methodology is to conclude the achievable net market rental and applicable tenancy profile likely to apply followed by capitalising same at a market derived capitalisation rate (relative to our analysis of sales evidence previous detailed and the envisaged tenancy profile) to derive the market value as if complete and fully occupied.

It is noted that at this juncture no tenants are secured and therefore there are both costs and risk associated with securing same. For clarity, we firstly conclude the market value as if complete and fully occupied. The valuation outcome therefore is a 'best case' scenario. The cost and risk of securing tenants are addressed in our residual development approaches to follow under our economic feasibility analysis.

Our valuation methodology remains consistent for all scenarios to follow in Sections 8-11.

6.2 KEY CONSIDERATIONS

The key investment considerations for the Harley Chambers building as repaired and strengthened to 67% NBS, are noted as follows:

- An appealing low rise character building.
- Highly desirable CBD position.
- The Heritage classification is less desired from an investment perspective by reason of (a perception of) onerous restrictions that apply by direct comparison with an equivalent asset equal in every other way, save for the heritage classification.
- 67% NBS seismic rating is the market minimum requirement. This is acceptable, however less desirable by comparison to say a 100% NBS equivalent asset on a fully leased basis.

- We consider the market rental fully leased, as derived below, equates $512,776 pa plus GST and associated operating expense charges. This is the total net rental that could be achieved for the individual office suites fully leased.
- Given the individual office suite nature of the tenancies and likely small business occupiers, achieving long term lease security is more difficult. We envisage the weighted average lease term would lie within the range of 3.0 – 5.0 years on a fully leased basis. This is shorter lease security relative to traditional office buildings however the shorter security is offset by multiple tenancies to diversify vacancy/income risk.
- Given 36 individual office suites are provided, the tenancy profile is likely to refer a significant volume of small business owners, and accordingly be highly management intensive.
- Affordable value quantum in the context of a CBD office asset and location.
- No onsite carparking a detraction to tenants therefore impacting end value.

6.3 VALUATION CONCLUSION

6.3.1 Market Rent Assessment

After due regard to attributes of the improvements subject to refurbishment and strengthened to 67% NBS, together with market evidence as previously detailed, we establish the market rental as follows:

MARKET RENT ASSESSMENT - 100% NBS

	NLA (sqm)	Market Rent Assessment $ per sqm	Market Rent Assessment Alternatively $ per week TOC	Annual Net Rent
Ground Floor				
Suite 1-2	81.7	$300.00	*$630*	$24,507
Suite 2A	18.2	$380.00	*$170*	$6,916
Suite 2B	15.2	$380.00	*$140*	$5,776
Suite 3	79.5	$360.00	*$700*	$28,613
Suite 4 & 5	97.0	$375.00	*$890*	$36,375
Suite 6	47.1	$350.00	*$410*	$16,482
Suite 7	51.2	$325.00	*$420*	$16,627
Suite 8	49.8	$300.00	*$380*	$14,931
Suite 9	36.4	$250.00	*$250*	$9,100
Level 1				
Suite 10	42.9	$300.00	*$330*	$12,864
Suite 11	20.6	$380.00	*$190*	$7,832
Suite 12A	18.2	$380.00	*$170*	$6,916
Suite 12B	18.2	$380.00	*$170*	$6,916
Suite 12C	18.2	$380.00	*$170*	$6,916
Suite 13 & 14	157.9	$360.00	*$1,400*	$56,830
Suite 15	39.4	$430.00	*$400*	$16,929
Suite 16	21.3	$405.00	*$210*	$8,627
Suite 17	41.4	$350.00	*$360*	$14,497
Suite 18	50.0	$325.00	*$410*	$16,240
Suite 19A	15.0	$380.00	*$140*	$5,711
Suite 19B	29.3	$300.00	*$230*	$8,802
Suite 20	36.4	$250.00	*$250*	$9,100
Level 2				
Suite 21	63.7	$300.00	*$490*	$19,104
Suite 22	18.2	$380.00	*$170*	$6,916
Suite 23A	18.2	$380.00	*$170*	$6,916
Suite 23B	14.1	$380.00	*$130*	$5,362
Suite 24	86.4	$360.00	*$760*	$31,086
Suite 24A	17.4	$430.00	*$180*	$7,469
Suite 25	20.9	$430.00	*$210*	$8,983
Suite 26	34.1	$405.00	*$330*	$13,790
Suite 27	61.9	$325.00	*$510*	$20,121
Suite 28A	23.8	$380.00	*$220*	$9,055
Suite 28B	16.9	$380.00	*$160*	$6,414
Suite 29	53.4	$325.00	*$440*	$17,339
Suite 30	45.1	$300.00	*$350*	$13,515
Suite 31	36.4	$250.00	*$250*	$9,100
TOTAL	1,495.0			$512,676

The market rent fully leased subject to 67% NBS compliance, is assessed at $512,676 pa plus GST and associated operating expense charges.

We have concluded a range of rental rates between $250.0 - $430.0 per sqm, an average of circa $350.0 per sqm. This results in an average weekly TOC rent per suite of circa $350.0 or $15,000 pa.

6.3.2 Capitalisation Approach

After due regard to the attributes previously detailed, we consider the applicable yield subject to 67% NBS compliance and envisaged fully leased tenancy profile, lies within the range of 7.00% - 7.50%, ourselves concluding at 7.25%.

Our capitalisation approach refers:

CAPITALISATION APPROACH - 67% NBS			Market Rent ($pa)
Fully Leased Market Rent			$512,676
Capitalise In Perpetuity @			7.25%
CAPITALISED VALUE			$7,071,394
Capital Adjustments			
Sensitivity Analysis			
7.00%	$7,325,000		
7.25%	$7,075,000	Adopt	$7,075,000
7.50%	$6,825,000		

6.3.3 Valuation Reconciliation

The market value 'as if complete', subject to the Harley Chambers building refurbished, 67% NBS compliant and fully occupied is stated as follows:

Valuation Reconciliation		
Capitalisation Approach:	Assessed Value:	$7,075,000
	Capitalisation Rate:	7.25%
ADOPTED VALUE		$7,075,000
	Initial Yield:	7.25%
	Indicated Equivalent Yield:	7.25%
	Yield on Market Income:	7.25%
	Capital Value Rate ($psm):	$4,732

The above value is plus GST (if any).

We consider our valuation outcome lies within reasonable bounds of $6.825 - $7.325 million.

7 VALUATION – HARLEY CHAMBERS REPAIRED & STRENGTHENED TO 100% NBS

7.1 KEY CONSIDERATIONS

The key valuation considerations under the 100% NBS seismically strengthened scenario, largely refers as previously detailed, however with the exceptions of:

- 100% NBS asset is preferred compared to a 67% NBS asset.
- On balance, we consider the achievable market rent by virtue of small business occupiers, would not differ between 67% NBS and 100% NBS for the reason that 67% NBS is an adequate rating and no extra utility is afforded by simply having a greater seismic strength. Accordingly, the previous market rent as detailed holds subject to 100% NBS seismic integrity.
- The lease security and subsequent weighted average lease term, remaining within the likely band of 3.0 – 5.0 years.

7.2 VALUATION CONCLUSION

7.2.1 Market Rent Assessment

We previously assessed the market rent subject to 67% NBS at $512,776 pa plus GST and associated operating expense charges.

We consider this rental applicable under the 100% NBS seismic scenario and refer to our previous Section 7.3.1 Market Rent Assessment.

7.2.2 Capitalisation Approach

Subject to 100% NBS compliance, we consider the applicable capitalisation rate lies within the range of 6.75% -7.25%, ourselves concluding at a midpoint of 7.00%.

Our capitalisation calculations refer:

CAPITALISATION APPROACH - 100% NBS			
			Market Rent ($pa)
Fully Leased Market Rent			$512,676
Capitalise In Perpetuity @			7.00%
CAPITALISED VALUE			$7,323,944
Capital Adjustments			
Sensitivity Analysis			
6.75%	$7,600,000		
7.00%	$7,325,000	Adopt	$7,325,000
7.25%	$7,075,000		

7.2.3 Valuation Reconciliation

The market value 'as if complete', subject to the Harley Chambers building refurbished, 100% NBS compliant and fully occupied is stated as follows:

Valuation Reconciliation		
Capitalisation Approach:	Assessed Value:	$7,325,000
	Capitalisation Rate:	7.00%
ADOPTED VALUE		**$7,325,000**
	Initial Yield:	7.00%
	Indicated Equivalent Yield:	7.00%
	Yield on Market Income:	7.00%
	Capital Value Rate ($psm):	$4,900

The above value is plus GST (if any).

We consider our valuation outcome lies within reasonable bounds of $7.075 - $7.600 million.

8 VALUATION – REPLACEMENT THREE LEVEL MODERN REPLICA BUILDING

8.1 KEY CONSIDERATIONS

The key investment considerations for the proposed three level replacement replica building are noted as follows:

- An appealing low-rise character building of new build finish quality.
- Highly desirable CBD position.
- No heritage classification applies.
- 100% NBS equivalent assumed as same required for consenting and end Code Compliance certification.
- Configuration comprising ground floor entry lobby, two ground floor tenancies of quasi commercial/retail nature equating a net lettable area of circa 500.0 sqm together with two upper office level of open plan nature equating circa 800.0 sqm net lettable area per level.
- Ground floor commercial / retail appeal impacted by extensive façade / limited glazing.
- Upper level office accommodation envisaged to suffer from same, restricting natural light and views.
- We envisage a tenancy profile incorporating two ground floor tenants and two upper level office tenants of reasonable covenant, not inferior, nor superior.
- Likely weighted average lease terms of circa 6 years
- Affordable value quantum in the context of a CBD office asset and location.
- No onsite carparking a detraction from the leaseability of the space and ultimately impacting realisable end value.

8.2 VALUATION CONCLUSION

8.2.1 Market Rent Assessment

We assess the net market rent as follows:

MARKET RENT ASSESSMENT - REPLICA MODERN REPLACEMENT

	NLA (sqm)	Net Effective $ per sqm	Annual Rent
Ground Floor Retail	500.0	$350.00	$175,000
Level 1	800.0	$300.00	$240,000
Level 2	800.0	$300.00	$240,000
Carparks	Nil		
TOTAL	2,100.0	$311.90	$655,000

The net market rent is concluded at $655,000 pa plus GST and associated operating expense charges.

8.2.2 Capitalisation Approach

After due regard to the attributes previously detailed, we consider the applicable yield of a proposed modern replica building subject to the likely fully leased tenancy profile, lies within the range of 6.75% - 7.25%, ourselves concluding at 7.00%.

Our capitalisation approach refers:

CAPITALISATION APPROACH - MODERN REPLICA			
			Market Rent ($pa)
Fully Leased Market Rent			$655,000
Capitalise In Perpetuity @			7.00%
CAPITALISED VALUE			$9,357,143
Capital Adjustments			

Sensitivity Analysis			
6.75%	$9,700,000		
7.00%	$9,350,000	Adopt	$9,350,000
7.25%	$9,025,000		

8.2.3 Valuation Reconciliation

The market value of the proposed replacement three level replica building subject to full building occupancy is appropriately stated as follows:

Valuation Reconciliation - MODERN REPLICA		
Capitalisation Approach:	Assessed Value:	$9,350,000
	Capitalisation Rate:	7.00%
ADOPTED VALUE		$9,350,000
	Initial Yield:	7.01%
	Indicated Equivalent Yield:	7.01%
	Yield on Market Income:	7.01%
	Capital Value Rate ($psm):	$4,452

The above value is plus GST (if any).

We consider our valuation outcome lies within reasonable bounds of $9.025 - $9.700 million.

9 VALUATION – REPLACEMENT THREE LEVEL BUILDING, HERITAGE FAÇADE RETAINED

9.1 KEY CONSIDERATIONS

Key consideration remains as previous detailed for the modern replica scenario save for the heritage listed façade is retained and likely a prevailing heritage classification applies moving forward

The key investment considerations are noted as follows:

- Building attributes for all intents and purpose are the same.
- Assumed part heritage classification applies to facade.
- Assumed similar tenancy profile.

9.2 VALUATION CONCLUSION

9.2.1 Market Rent Assessment

This remains as previously assessed at $655,000 pa plus GST and associated operating expense charges.

9.2.2 Capitalisation Approach

After due regard to the attributes previously detailed, we consider the applicable yield of a proposed replacement building with retained heritage façade subject to the likely fully leased tenancy profile, lies within the range of 7.00% - 7.50%, ourselves concluding at 7.25%.

Our capitalisation approach refers:

CAPITALISATION APPROACH - NEW OFFICE BLDG, RETAINED FAÇADE			
			Market Rent ($pa)
Fully Leased Market Rent			$655,000
Capitalise In Perpetuity @			7.25%
CAPITALISED VALUE			$9,034,483
Capital Adjustments			
Sensitivity Analysis			
7.00%	$9,350,000		
7.25%	$9,025,000	Adopt	$9,025,000
7.50%	$8,725,000		

9.2.3 Valuation Reconciliation – Replacement Three Level Building, Heritage Facade Retained

The market value of the proposed replacement three level building with retained façade subject to full building occupancy is appropriately stated as follows:

Valuation Reconciliation - New Office Building, Retained Façade		
Capitalisation Approach:	Assessed Value:	$9,025,000
	Capitalisation Rate:	7.25%
ADOPTED VALUE		$9,025,000
	Initial Yield:	7.26%
	Indicated Equivalent Yield:	7.26%
	Yield on Market Income:	7.26%
	Capital Value Rate ($psm):	$4,298

The above value is plus GST (if any).

We consider our valuation outcome lies within reasonable bounds of $8.725 - $9.350 million.

10 VALUATION – REPLACEMENT OFFICE BUILDING

10.1 KEY CONSIDERATIONS

In concluding the market value of a proposed three level replacement office building, key considerations are noted as follows:

- An appealing new build low-rise contemporary office building.
- Highly desirable CBD position.
- 100% NBS assumed.
- Configuration comprising ground floor entry lobby, two ground floor tenancies of quasi commercial/retail nature equating a net lettable area of circa 500.0 sqm together with two upper office level of open plan nature equating circa 800.0 sqm net lettable area per level.
- Ground floor commercial / retail appeal improved by comparison to impediment of current façade.
- Upper level office accommodation improved by virtue of assumed full height perimeter glazing improving natural light and views.
- We envisage a tenancy profile incorporating two ground floor tenants and two upper level office tenants of reasonable covenant, not inferior, nor superior.
- Likely weighted average lease terms of circa 8 years.
- Affordable value quantum in the context of a CBD office asset and location.
- No onsite carparking a detraction.

10.2 VALUATION CONCLUSION

10.2.1 Market Rent Assessment

We assess the market rent as follows:

MARKET RENT ASSESSMENT - REPLACEMENT OFFICE BUILDING

	NLA (sqm)	Net Effective $ per sqm	Annual Rent
Ground Floor Retail	500.0	$375.00	$187,500
Level 1	800.0	$330.00	$264,000
Level 2	800.0	$330.00	$264,000
Carparks	Nil		
TOTAL	2,100.0	$340.71	$715,500

We conclude the market rent to be $715,500 pa plus GST and associated operating expense charges.

10.2.2 Capitalisation Approach

After due regard to the attributes previously detailed, we consider the applicable yield of a proposed replacement building with retained heritage façade subject to the likely fully leased tenancy profile, lies within the range of 6.50% - 7.00%, ourselves concluding at 6.75%.

Our capitalisation approach refers:

CAPITALISATION APPROACH - REPLACEMENT OFFICE BUILDING			
			Market Rent ($pa)
Fully Leased Market Rent			$715,500
Capitalise In Perpetuity @			6.75%
CAPITALISED VALUE			$10,600,000
Capital Adjustments			
Sensitivity Analysis			
6.50%	$11,000,000		
6.75%	$10,600,000	Adopt	$10,600,000
7.00%	$10,225,000		

10.2.3 Valuation Reconciliation

The market value of the proposed replacement office building 'as if complete' and subject to the envisaged tenancy profile is stated as follows:

Valuation Reconciliation - Replacement Office Building		
Capitalisation Approach:	Assessed Value:	$10,600,000
	Capitalisation Rate:	6.75%
ADOPTED VALUE		$10,600,000
	Initial Yield:	6.75%
	Indicated Equivalent Yield:	6.75%
	Yield on Market Income:	6.75%
	Capital Value Rate ($psm):	$5,048

The above value is plus GST (if any).

We consider our valuation outcome lies within reasonable bounds of $10.225 - $11.000 million.

11 VALUATION SUMMARY

Prior to contemplating the economic feasibility of each scenario previously detailed, for ease of reporting fluidity, we briefly summarise our previous valuation conclusions under each of the possible repair and strengthen or replacement options.

These are as follows:

Scenario	Concluded Value 'As If Complete' & Fully Occupied
Harley Chambers - If 34% NBS (Land Value Less Costs)	$3,520,000
Harley Chambers Repaired to 67% NBS	$7,075,000
Harley Chambers Repaired to 100% NBS	$7,325,000
Replacmement 3 Level Modern Replica	$9,350,000
Replacement 3 Level Building, Façade Retained	$9,025,000
Replacement 3 Level Office Building	$10,600,000

The above values are plus GST (if any) and predicated on an 'as if complete' and fully occupied basis.

For clarity, the possible scenario of Harley Chambers Strengthened to 34% NBS above is predicated on underlying encumbered cleared site basis. Therefore, same is not considered under the economic feasibility to follow.

12 ECONOMIC FEASIBILITY CONSIDERATIONS

12.1 INTRODUCTION

We have previously concluded the market value under various scenarios subject to full building occupancy.

Each scenario considered however faces different challenges to actually achieve same including varying associated costs and risk profiles.

In order to consider the merits of the various scenario's, we place each scenario through accepted residual development methodology to enable 'like for like' comparison amongst those scenarios we have been requested to consider.

12.2 RESIDUAL DEVELOPMENT METHODOLOGY

The initial step for any development proposal is the static feasibility format, which is typically universally applied (by developers) to determine the viability and profitability of a project, and therefore, what can be paid for the underlying land or in this instance, the site 'as is' inclusive of the existing earthquake damaged improvements.

A static feasibility is an analysis of cash flows in a static context. The time value of money is in effect accounted for by establishing notional finance and opportunity costs, while allowing for a profit and risk margin.

The static development feasibility works by determining the value of the proposal at completion and then deducting all associated project costs (in this instance cost of sale of the end development, construction costs, leasing costs, associated finance costs and an appropriate profit and risk margin).

The difference between the value at completion and the total project cost is the value of the land, or again, in this instance the value of the site 'as is' including the earthquake damaged improvements.

The development feasibility approach therefore allows each scenario to be contemplated or ranked on a like for like basis, the highest outcome being most economically feasible scenario.

12.3 RESIDUAL DEVELOPMENT METHODOLOGY

In undertaking our residual valuation methodology, there variables considered of importance are briefly noted as follows:

- We commence with the gross realisation as a starting point. This is the market value as if complete and fully occupied as previously concluded.
- From this, we deduct appropriate sales and legal costs resulting in a net realisation.
- A profit and risk allowance is made. This reflects the risk of taking on the project as it currently stands. Alternatively put, no informed person would take on the project as it current stands for no recompense.

  We acknowledge unavoidable subjectivity in determining the appropriate profit and risk allowance. All scenarios considered herein are significant both in terms of value scale, construction risk (particularly the repair, strengthening and façade retention scenario's) and in the context of the present supply and demand imbalance of the office market and risk of successfully leasing the end development.

On balance, we have adopted a profit and risk allowance to the repair, strengthening and façade retention scenarios of 25%. We have adopted a profit and risk allowance to the three level replica and three level modern replacement scenarios of 20% for the reason lesser construction or retention risk applies.

- There are various associated costs that must be reflected in achieving the end outcome 'as if complete' and fully occupied. These include in this instance:
  - Associated leasing fees and legal costs.
  - We have deducted for strengthening, repair and rebuild costs as derived by AECOM and provided to us.
  - AECOM costs include appropriate contingency, we therefore make no further allowance.
- Lastly, we deduct holding costs which includes interest on outlay, alternatively the opportunity cost of holding the asset until the development works are completed and further, operating expenses that would be incurred over the same period. We have adopted a redevelopment programme within the time span of 15 – 24 months, scenario dependent.

12.4 RESIDUAL DEVELOPMENT VALUATION – HARLEY CHAMBERS REPAIRED & STRENGTHENED SCENARIOS

Our residual development valuation under each of the Harley Chambers repaired and strengthened to 67% & 100% NBS scenarios are as follows:

RESIDUAL VALUATION - REPAIR SCENARIO

	REPAIRED BUILDING, 67% NBS, & FULLY LEASED			REPAIRED BUILDING, 100% NBS		
GROSS REALISATION	As Assessed		$7,075,000	As Assessed		$7,325,000
SALES COSTS						
Sales Commissions	@ 1.50%	$106,125		@ 1.50%	$109,875	
Legal		$20,000			$20,000	
		$126,125			$129,875	
NET REALISATION			$6,948,875			$7,195,125
Profit & Risk	@ 25.00% On Outlay	$1,389,775		@ 25.00% On Outlay	$1,439,025	
OUTLAY			$5,559,100			$5,756,100
LESS COSTS						
Leasing Fees - Agents	@ 16.67%	$85,446		@ 16.67%	$85,446	
Leasing Fees - Legal		$25,000			$25,000	
Construction Works - AECOM		$17,070,000			$18,790,000	
		$17,180,446	($11,621,346)		$18,900,446	($13,144,346)
LESS HOLDING COSTS						
Interest on Outlay - SAY	15 mths @ 7.00% @ 100%	$486,421		18 mths @ 7.00% @ 100%	$604,391	
OPEX - SAY	15 mths @ $149,504 @ 100%	$186,880		18 mths @ $149,504 @ 100%	$224,256	
		$673,301	($12,294,647)		$828,647	($13,972,993)
INDICATED VALUE - AS IS		SAY	($12,300,000)		SAY	($13,975,000)

The above analysis results in negative value outcomes of $12.300 million and $13.975 million for each of the 67% & 100% NBS scenarios respectively.

Alternatively put, the costs of achieving the end proposal significantly outweigh the end value that can be achieved.

Both repair and strengthening proposals are therefore considered uneconomic.

12.5 RESIDUAL DEVELOPMENT VALUATION – HARLEY CHAMBERS REPAIRED & STRENGTHENED SCENARIOS

Our residual development valuation under each of the replacement building scenarios are detailed as follows:

RESIDUAL VALUATION - REPLACEMENT SCENARIOS

	REPLICA REPLACEMENT			REPLACEMENT BUILDING, RETAINED FAÇADE		
GROSS REALISATION	As Assessed		$9,350,000	As Assessed		$9,025,000
SALES COSTS						
Sales Commissions	@ 1.50%	$140,250		@ 1.50%	$135,375	
Legal		$50,000			$20,000	
		$190,250			$155,375	
NET REALISATION			$9,159,750			$8,869,625
Profit & Risk	@ 20.00% On Outlay	$1,526,625		@ 25.00% On Outlay	$1,773,925	
OUTLAY			$7,633,125			$7,095,700
LESS COSTS						
Leasing Fees - Agents	@ 16.67%	$109,167		@ 16.67%	$109,167	
Leasing Fees - Legal		$25,000			$25,000	
Construction Works - AECOM		$10,700,000			$11,110,000	
		$10,834,167			$11,244,167	
			($3,201,042)			($4,148,467)
LESS HOLDING COSTS						
Interest on Outlay - SAY	18 mths @ 7.00% @ 100%	$801,478		24 mths @ 7.00% @ 100%	$993,398	
OPEX - SAY	18 mths @ $168,000 @ 100%	$252,000		24 mths @ $168,000 @ 100%	$336,000	
		$1,053,478			$1,329,398	
			($4,254,520)			($5,477,865)
INDICATED VALUE - AS IS		SAY	($4,250,000)		SAY	($5,475,000)

RESIDUAL VALUATION - REPLACEMENT SCENARIOS

	REPLACEMENT OFFICE BUILDING		
GROSS REALISATION	As Assessed		$10,600,000
SALES COSTS			
Sales Commissions	@ 1.50%	$159,000	
Legal		$50,000	
		$209,000	
NET REALISATION			$10,391,000
Profit & Risk	@ 20.00% On Outlay	$1,731,833	
OUTLAY			$8,659,167
LESS COSTS			
Leasing Fees - Agents	@ 16.67%	$119,250	
Leasing Fees - Legal		$25,000	
Construction Works - AECOM		$9,760,000	
		$9,904,250	
			($1,245,083)
LESS HOLDING COSTS			
Interest on Outlay - SAY	15 mths @ 7.00% @ 100%	$757,677	
OPEX - SAY	15 mths @ $168,000 @ 100%	$210,000	
		$967,677	
			($2,212,760)
INDICATED VALUE - AS IS		SAY	($2,225,000)

The Replica Replacement and the Replacement Building with retained façade scenarios result in negative valuation outcomes of $4.250 million and $5.475 million respectively.

Again, the costs outweigh the end value that can be achieved from undertaking the project. Therefore, both proposals are uneconomic.

The proposed replacement building has a negative value outcome of $2.225 million, again the costs outweighing the end achievable value and therefore the new three level replacement building proposal is uneconomic.

12.6 ECONOMIC FEASIBILITY RECONCILIATION

All possible scenarios are uneconomic from a commercial pragmatic feasibility perspective however we consider it appropriate to place each in market context.

The disconnect between the costs of repairing and strengthening the exiting improvements and the end value that is achievable is significant. The reason for the substantial variation is considered that the costs to undertake the works to repair a heritage listed asset are extraordinary and not reflective of a typical market development scenario where a contemporary building is constructed on a bare site. With certainty, a significant loss would be incurred by any person undertaking the repair and strengthening programme.

The above comments hold true for the replacement replica or the façade retention scenarios save for the disconnect between cost and end value being lessened although still material at circa 50% less on realisable end value. Again, constructing a replica building or retaining a façade are viewed as an extraordinary expense that the market is not accepting of by comparison to the construction feasibility of a contemporary building on a vacant site. Again, either scenario would result in a significant loss to any person undertaking the project.

It is acknowledged as unusual that a replacement office building is not economically viable however this scenario is closer to break even. In our view, there are several key reasons why the negative outcome occurs. Firstly, the cost of demolition of the existing improvement is incurred that would not apply to a comparable cleared site alternative. Secondly, the site is opposite the Avon River and we understand carries heightened substructure costs in recognition of greater geotechnical challenges. Lastly, the market is oversupplied with office accommodation meaning that a level of rental required to make a new office building development feasible cannot be achieved, certainly there is greater inherent lease up risk than previous years. Alternatively put, if a greater level of income (or rent) could be achieved, the feasibility would improve however this does not appear likely (in the context of the over supply dynamic) in the medium term at least. As rent and end value outcome cannot be materially varied, any developer would be required to reduce the physical costs to improve the feasibility of the project.

13 WORCESTER CHAMBERS – 69 WORCESTER BOULEVARD

Worcester Chambers comprises a reasonably presented two-level commercial building inclusive of Character façade which we understand carries heritage classification. The property is held by way of a single freehold title comprising 492 sqm more or less.

The building is internally configured to provide 16 large office suites and common amenities over the two levels, a consequence of a former use as a language school. The internal fitout is reasonably well presented however the configuration is now obsolete and significant internal reconfiguration in our view is required to achieve a lettable standard.

A further challenge by way of being a standalone building with full site coverage is the absence of onsite carparking, a feature that is preferred by tenants and therefore a detriment.

The property is understood to have been occupied by a language school at the time of the earthquake events and subsequently vacated following. Following the earthquake events, the property has been marketed for lease and a tenant never secured over a now circa five-year period. Notwithstanding, we are aware CERA did use the premise on an informal month by month basis as overflow for their operations at the height of their operational period however the building remained for lease.

During such time, the property has sold twice, initially to a part of the Gough family, who actively marketed and offered significant incentive to any incoming tenant without success prior to selling the building to the adjoining landowner, Lee Pee Limited for a $120,000 capital loss. The latter transaction in our view is not reflective of unfettered interplay of market participants, arguably a premium being payed to secure the adjoining site, certainly it caused the transaction to occur.

On balance, we are of the opinion that the extended period of time that the property has been available for occupation, particularly over a period of time where there was significant shortage of accommodation, confirms to us that the market is not desirous of the building as configured.

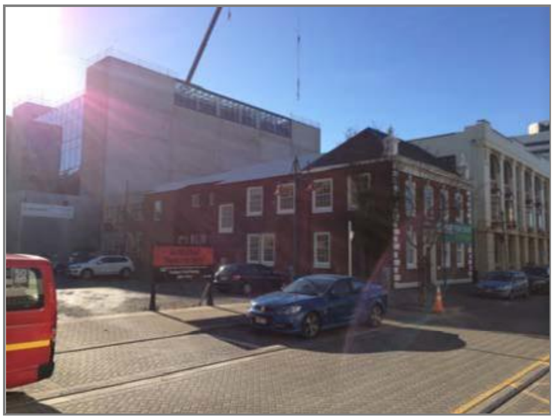
Therefore, pragmatically some measure of reconfiguration is required to return the property into a marketable state.

By virtue of the above background, utilising present day valuation metrics and considering Worcester Chambers as a standalone asset, we could not support a market valuation of at or above the price of $2.120 million Lee Pee Limited paid the Gough family. Realistically a discount would apply however we have not completed sufficient investigations to determine the level of discount that would be warranted.

The discount referred to is driven by a combination of a now softer rental market, some incentivisation that any Landlord would have to provide, and lastly some pragmatic capital expenditure allowance to reconfigure the current layout.

For ease of reference, a selection of photos held on file by CBRE of Worcester Chambers are shown overleaf:


CBRE FOR LEASE
03 374 9889




EXIT

14 CONTACT DETAILS

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APPENDICES

APPENDIX I 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 16 - All valuations are carried out in accordance with the API/PINZ Property and International Valuation Standards 2009 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 17 - 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 18 - Unless otherwise stated, we have not obtained Land Information Memoranda (LIM) or Project Information Memoranda (PIM) from the Territorial Authority.
Tenants Covenant Strength:	Premise 19 - 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 20 - 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 21 - We state that this is a valuation report, and not a Structural Survey.

LAST UPDATED V1002.19

APPENDIX II COPY OF CURRENT COMPUTER FREEHOLD REGISTER SEARCHES

COMPUTER FREEHOLD REGISTER
UNDER LAND TRANSFER ACT 1952

Search Copy

R.W. Muir
Registrar-General
of Land

Identifier	**CB18K/448**
Land Registration District	**Canterbury**
Date Issued	20 July 1978

Prior References
CB411/136

Estate	Fee Simple
Area	435 square metres more or less
Legal Description	Part Lot 1 Deposited Plan 6773

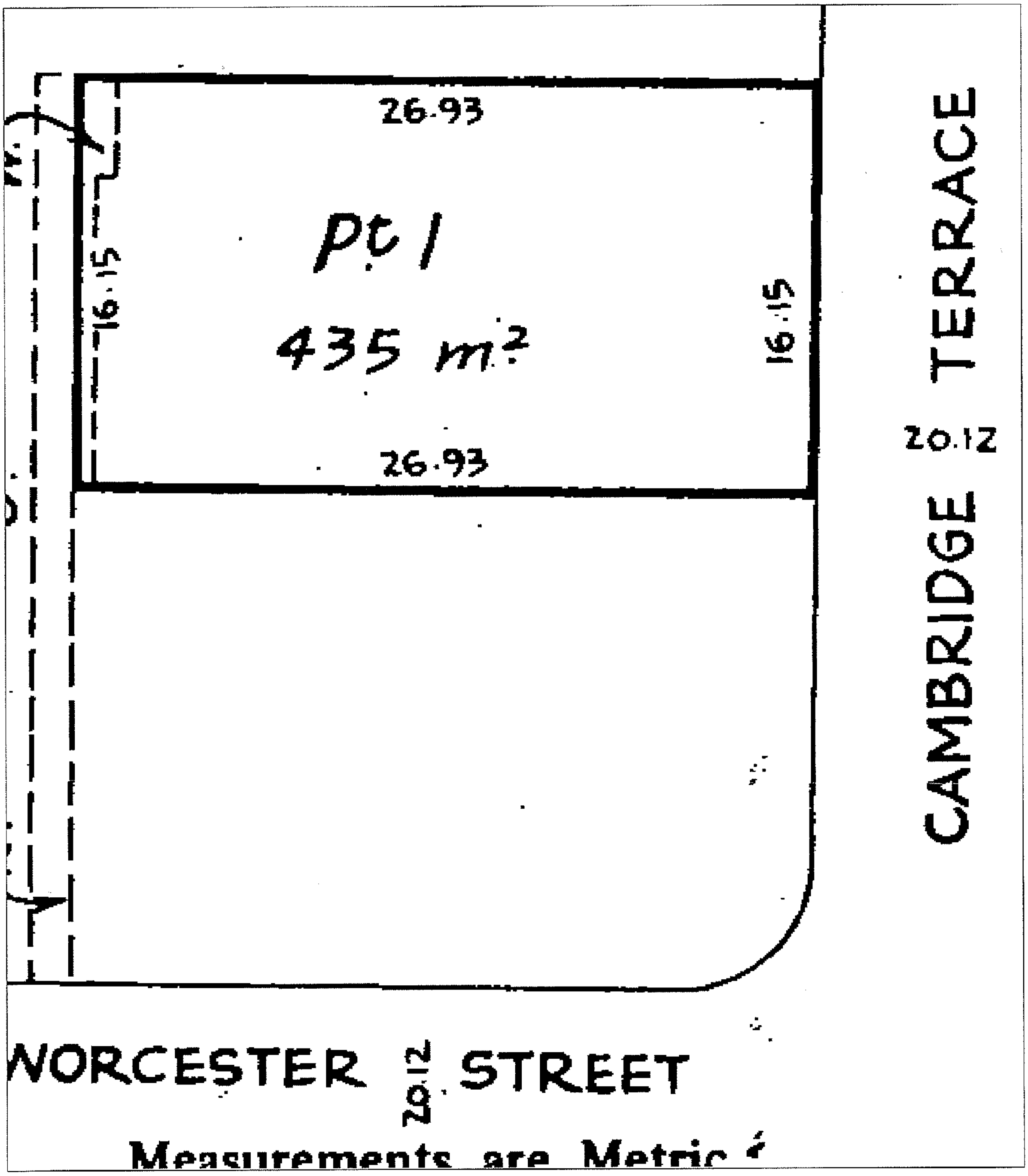
Proprietors
Lee Pee Limited

Interests

205608 Transfer creating the following easements

Type	Servient Tenement	Easement Area	Dominant Tenement	Statutory Restriction
Right of way	Part Lot 1 Deposited Plan 6773 - herein	Blue Transfer 205608	Lot 2 Deposited Plan 6773 - CT CB415/82	
Right of way	Lot 2 Deposited Plan 6773	Brown (yellow) Transfer 205608	Part Lot 1 Deposited Plan 6773 - herein	

Identifier CB18K/448



COMPUTER FREEHOLD REGISTER
UNDER LAND TRANSFER ACT 1952

Search Copy

R.W. Muir
Registrar-General
of Land

Identifier **CB18K/449**
Land Registration District **Canterbury**
Date Issued 20 July 1978

Prior References
CB410/144

Estate	Fee Simple
Area	503 square metres more or less
Legal Description	Part Lot 1 Deposited Plan 6773

Proprietors
Lee Pee Limited

Interests

205608 Transfer creating the following easements

Type	Servient Tenement	Easement Area	Dominant Tenement	Statutory Restriction
Right of way	Part Lot 1 Deposited Plan 6773 - herein	Red Transfer 205608	Lot 2 Deposited Plan 6773 - CT CB415/82	
Right of way	Lot 2 Deposited Plan 6773	Brown (yellow) Transfer 205608	Part Lot 1 Deposited Plan 6773 - herein	

Identifier **CB18K/449**