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17 October 2007

Mr. Donald Ritchie  
Reed Funds Management Limited  
PO Box 1176  
Maroochydore Queensland 4558

Dear Donald

**490 NORTHBOURNE AVENUE (BLOCK 16 SECTION 33), DICKSON, ACT**

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### **1. Instructions**

We refer to your recent instructions requesting a summary for the purposes of inclusion in a Product Disclosure Statement (PDS). This letter provides a summary of the full valuation report, detailing the principle factors that have been considered to reach our opinion of market value. For further detailed information, reference should be made to the full valuation report dated 26 September 2007 with file reference number CBR062731.

### **2. Brief Description**

This subject property is a near level rectangular shaped inside site. The site provides a good building contour without adverse features and has two street frontages. Erected on the property is an eight (8) level commercial building is currently in the process of a substantial upgrade. The building is functional in design and provides good natural light to all areas.

### **3. Tenancy Details**

At the date of valuation we have been made aware that as the refurbishment of each floor is completed then the rental for the floor will be increased to the new rental rate of \$360 per square metre/a/gross.

Effectively, a transitional lease is being adopted, but for the purposes of this valuation we have adopted the new 10-year lease to Telstra with an effective commencing date of September 2007. A copy of the main lease has been perused and has been summarised as follows:

### Telstra Corporation Limited

<b>Property:</b>	490 Northbourne Avenue, Dickson, ACT.
<b>Demised Premises:</b>	Ground floor and levels 1 to 7.
<b>Net Lettable Area</b>	Approximately 7,878m <sup>2</sup>
<b>Lease Status:</b>	Not executed, however, Heads of Agreement lease proposal signed.
Commencement:	1 December 2008.
<b>Lease Term:</b>	10 years.
<b>Option Term:</b>	Two (2) x three (3) years.
<b>Base Gross Rental:</b>	\$360/m <sup>2</sup> /a gross or \$2,836,080/annum.
<b>Outgoings:</b>	Tenant responsible for all increases in building and statutory outgoings from a base date of 31 <sup>st</sup> December 2007. This includes all common area cleaning but excludes tenancy cleaning.
<b>Outgoing Recoveries:</b>	Telstra is responsible for all whole of building electricity, telephone and other utilities and services.
<b>Cleaning:</b>	Tenant responsibility for cleaning the premises.
<b>Rent Review:</b>	Annual 3.5%/annum increases on each anniversary of the commencement date for years 2 to 5. Market review in year 6 and then annual 3.5%/annum increases on each anniversary of the market review date.
<b>Market Rent Review:</b>	The rental will be reviewed to market levels at year 6 and if any option is actioned. Rent to be reviewed with a cap and collar of 95% and 105% to apply to the year 6 market review. (The rent cannot increase by more than 5% or decrease by more than 5%).
<b>Car parking:</b>	Telstra will license via a separate licence agreement, 174 reserve car spaces at a rent of \$600 per space per annum (\$104,400).
<b>Signage:</b>	At a cost of \$50,000 per annum, the Lessor will allocate areas for the Lessee on the following locations: <ul style="list-style-type: none"> <li>• Exclusive building roof top signage</li> <li>• Any other areas permitted by council</li> </ul>
<b>Incentive:</b>	Telstra is entitled to a rent free period to the value of \$300,000 (plus GST) starting on 1 December 2008.
<b>GST:</b>	Lessee to pay all GST
<b>Other:</b>	The cost of after hours air conditioning is \$20 per hour per floor plus GST. The after house air charge throughout the term or option period is to be reviewed annually and the costs are to be increased by no more than CPI per annum compounded.
<b>Tenant profile:</b>	The property is wholly leased to blue chip tenant.

The net annual income of the property has been assessed as follows, including the outgoing recoveries of \$132,956 in the base rental.

<b>Rental Income</b>	\$399.45 psmpa	<b>\$3,148,079</b>
<i>Less Permanent Vacancy Allowances</i>		<i>No Allowance Made</i>
<i>Plus Other Income Streams</i>		<u>Not Applicable</u>
<b>Gross Rental Income</b>		<b>\$3,148,079</b>
Rates Fire Levy	\$19,551	
Water Rates	\$25,000	
Land Tax	\$21,363	
Insurance	\$29,000	
Operating Expenses (Incl. Management)	\$231,210	
<b>Total Outgoings / Net Income</b>	<b>\$326,124</b>	<b>\$2,821,955</b>
<i>Per square metre per annum</i>	<i>\$41.38</i>	
<i>As a % of Gross Income (after PVA)</i>	<i>10.36%</i>	

490 Northbourne Avenue (Level 6 Section 33) Dickson, ACT  
26 September 2007

However, the net annual income utilised for valuation calculation purposes can vary to the above amount due to various adjustments such as permanent vacancy allowance, reversions to market rental, outstanding incentives, different treatment of income such as profit on resale of services etc.

It should also be noted that the assessed rent is exclusive of GST and therefore any income generated upon leasing/re-leasing any areas of the property is protected by GST under the terms of any proposed lease.

#### **4. Market Commentary**

The Canberra Office Market is showing a strong performance through 2007. The Property Council of Australia have indicated that Canberra still has the lowest vacancy rates in the nation, with an overall office vacancy rate of around 2%, underpinned by strong tenant demand and a shortage of quality A and B grade space that accounts for over 2/3 of the market, which totals over 1,600,000sqm.

The Canberra office outlook for the remainder of 2007 is expected to remain robust for the most part. On the supply side, a lack of quality stock is expected to keep vacancy rates down, especially within the CBD area due to the little construction within the last decade. However, a number of developments within the CBD and Woden precincts from land released in 2004 are due for completion in late 2007 and 2008 (equivalent to an expected 8% of stock). New developments are expected to push vacancy levels upwards for B and C grade stock as they come online.

With current low vacancy rates, major tenant moves are unlikely to occur until the completion of new office developments in 2007 and 2008. Many of these have been pre-committed with a resultant looming vacancy for their existing buildings. Hence, absorption rates are expected to ease relative to the 2006 figures. It is important to identify the Commonwealth Government's impact on absorption rates in the wake of a good performance of the ACT economy in 2007. Planned expansions, primarily in national security related departments, are likely to increase the government's space requirements and contribute to jobs growth.

The markets nationally are now very much linked with limited good quality stock for institutional investors available and the weight of money in the market place commanding high levels of demand. Such a combination of limited supply and high demand has resulted in the yield compression experienced by the major commercial markets, including Canberra, where blue chip tenants are prevalent and fixed growth, 10-15 year leases are available.

Overall the 2007 outlook for the Canberra office market is steady, however, it is expected that towards the end of 2007 and 2008 we will see some changes in the market. These are expected to include rising vacancy rates with, A – grade stock being the least affected.

## 5. Valuation Rationale

We have adopted both a capitalisation of net income approach and a discounted cash flow approach to assist the valuer in forming an opinion of value. Both approaches are accepted and tested methodologies endorsed by the Australian Property Institute and law.

Current market value is the price the property should achieve if sold at the relevant date following an effective marketing campaign of up to six (6) months prior to that date.

The *Capitalisation Approach* in this instance has been affected by capitalising the assessed maintainable net market rental at a yield obtained through the analysis of sales evidence. No allowances have been made in the calculation for costs incurred in securing a tenant or tenants due to the length of the lease term.

The *Discounted Cash Flow Approach* involves the discounting of the net cash flow on a monthly basis over the assumed cash flow period (10 years) at an appropriate rate to reflect risk to derive a market value. The net cash flow comprises the cash inflows less the cash outflows over the cash flow period, with the addition of the terminal value in the final cash flow period.

## 6. Capitalisation Approach

The capitalisation approach examines potential net income available from the property, which is then capitalised at a rate that reflects the risk profile of that property, and the property market of the day. This approach attempts to mirror the typical property investors' view of the subject property and the market. Appropriate capital adjustments are then made to reflect the specific cash flow profile and general characteristics of the property.

With regard to the nature of the current tenancies and the above sales evidence, we are of the opinion that a capitalisation rate range of between 6.50% and 7.00% is substantiated.

### Valuation and Market/Passing Rent Calculations:

		Valuation Calculations	Passing Rent
<b>Gross Rental Income</b>		<b>\$3,148,079</b>	\$3,148,079
<i>Less</i> Vacancy Allowance	0.00%	No Allowance Made	Not Applicable
<i>Plus</i> Other Income Streams		Not Applicable	\$0
<i>Less</i> Outgoings		\$326,124	\$326,124
<b>Net Income</b>		<b>\$2,821,955</b>	\$2,821,955
<b>Capitalisation Rate</b>	<b>6.75%</b>	<b>\$41,806,741</b>	<b>6.75%</b>
Cap. Rate before Management		6.80%	
<b>Adjustments</b>			
Rental adjs. Repairs Req'd & Balance Land		No Allowance Made	
Assessed Value		\$41,806,741	
<b>Adopt</b>		<b>\$42,000,000</b>	

### Valuation Adjustments:

<i>Profit Rent</i>		No Allowance Made
<i>Downward Adjustment</i>		No Allowance Made
Immediate Repairs Req'd.		No Allowance Made
Value of Excess Land		No Allowance Made
<b>Lease up allowance calculations</b>		<b>No Allowance Made</b>
<i>Area Vacant (m<sup>2</sup>)</i>		Not Applicable
<i>Income attributed to Vacancy</i>		\$300,000
<i>Permanent Vacancy Adjustment</i>		Not Applicable
<i>Lease-up Term (full period allowed)</i>		Not Applicable
<i>Agents Commission &amp; Advertising</i>		Not Applicable

### Sensitivity:

<i>Increase Capitalisation Rate to:</i>	7.00%	\$40,313,643
<b>Market Value based on adopted Capitalisation Rate</b>		<b>\$42,000,000</b>
<i>Decrease Capitalisation Rate to:</i>	6.50%	\$43,414,692

## 7. Discounted Cash Flow Approach

We have also adopted a discounted cash flow method to assist the valuer in forming an opinion. The DCF relates to the next period of 10 years during which time stable market conditions with an increasing rate of rental growth can be anticipated.

We have adopted a discount rate of 8%, which produces a net present value of \$41,364,219.

At our adopted value of \$42,000,000 the Internal Rate of Return reflects 7.77%.

We are of the opinion that the DCF method is a useful tool for investment analysis, however it should not be considered without caution unless supported by sales evidence. An inherent shortcoming with this approach is the assumption of a capitalisation rate to determine the terminal value, however the effect of this variable is mitigated due to the discounting influence of time. The results of a DCF analysis are extremely sensitive to marginal changes to input variables such as growth rates and discount rates.

## 8. Valuation Conclusions

Based on the available evidence and the assumptions and qualifications contained within this report we have assessed the following value for the subject property 'at completion of the upgraded works' to be:

### Adopted Value:

<b>Based on evidence we have adopted a current market value of:</b>	<b>\$42,000,000</b>
which provides an analysed return on investment of:	6.72%
an analysed rate per square metre of effective building area of:	\$5,331
and an internal rate of return at:	7.77%

## 9. Valuation Summary

Subject to the assumptions and qualifications contained within the body of this report, we have assessed the market value "as if complete" of the subject property (exclusive of GST) at: -

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**\$42,000,000**

**(Forty Two Million Dollars)**

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## 10. Disclaimer

Herron Todd White Pty Limited has prepared this summary for inclusion in the PDS. Herron Todd White Pty Limited was involved only in the preparation of this summary and the valuation report referred to herein and specifically disclaim liability to any person in the event of any omission from, or false or misleading statement included in the PDS, other than in respect of the valuations and this summary.

In preparing our valuation we have relied upon various financial and other information by the selling agent (Colliers International, Canberra) and Reeds Funds Management Limited. Where possible, within the scope of our retainer and limited to our expertise as valuers, we have reviewed this information including by analysis against industry standards. Based upon that review, Herron Todd White has no reason to believe that the information is not fair and reasonable or that material facts have been withheld. However, Herron Todd White's enquiries are necessarily limited by the nature of its role and Herron Todd White does not warrant that its enquiries have identified or verified all of the matters which a full audit, extensive examination, or 'due diligence' investigation might disclose. For the purpose of our valuation assessment, we have assumed that this information is correct.

Neither the whole nor any part of this valuation or any reference thereto may be included in any published documents, circular or statement, nor published in part or full in any way, without written approval of the form and context in which it may appear.

This valuation report does not purport to be a site or structural survey of the land or improvements thereon, nor was any such survey undertaken. An opinion as to the condition of improvements is not given in the capacity as an expert and should not be relied upon.

This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of three months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

Should you require any further information please do not hesitate to contact the under signed.

Yours sincerely

**HERRON TODD WHITE (SYDNEY/ACT & SE NSW) PTY LIMITED**

A handwritten signature in black ink, appearing to read 'Matt Shadbolt', written in a cursive style.

**MATT SHADBOLT AAPI CPV**  
Commercial Manager (Sydney ACT & SE NSW)  
NSW Registration No. 3690