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1 January 2002

XSample Report 1

The Manager
A Bank Limited
Commercial Lending Division
PO Box 000
AUCKLAND

Attention Mr Money

Dear Sir

**Re Valuation of Business Unit
Unit D, 12 Neptune Place, North Harbour
Your Client – The Trust**

In accordance with instructions received, the above property was inspected on 1 January 2002 in order to determine its current market value for the purpose of arranging mortgage finance. We report as follows:

TYPE OF PROPERTY

A contemporary, road front business unit falling within the medium size bracket and situated within the North Harbour Industrial estate.

LEGAL DESCRIPTION

The property is held as a stratum estate within the meaning of the Unit Titles Act 1972, this form of ownership is commonly referred to as a Unit Title. Formal legal description is as follows:

Principal Unit D on Unit Plan 111111 together with Accessory Units No 1,2,3,4,5,6,& 7.

A search of Certificate of Title **100B/999** reveals the following registrations:

- ? Registered Owner – Robbie Properties Limited
- ? Supplementary Record Sheet 100B/999
- ? Mortgage to The Banking Group Limited

ZONING

The site is zoned Business 9 under the North Shore City Proposed District Plan which was publicly notified in October 1994.

The objective of the Business 9 zone is to provide opportunity for a wide range of employment generating business activities with a moderate standard of streetscape amenity which do not wish to locate in a higher land value and higher amenity value land. The Business 9 zone covers much of the area that was formerly zoned Employment 1.

The Business 9 zone has been applied to areas which are established industrial areas as well as the large areas of vacant land in the Albany Basin. The zone specifically excludes activities which will generate high levels of vehicular traffic and accordingly restricts retail activity. Particular attention has been paid to controls which will protect the residential interface. These include buffer strip restrictions on activities, the layout of sites and perimeter yard requirements where sites adjoin residential zones. As well there is a comprehensive set of performance standards to ensure that significant adverse effects are avoided. These performance standards apply to such factors as noise and air emission controls.

The maximum height for development in a Business 9 zone is 12 metres except for locations within 200 metres of a residential or recreation zone where the height is reduced to 9 metres. Minimum yard requirements are 7.5 metres for a front yard, nil for side and rear yards except where the site abuts a residential or recreation zone in which case there is a minimum 5 metre setback. Otherwise site coverage is unlimited but in general terms the maximum cover that is possible except where underground carparking is provided, would be in the order of 50%.

The foregoing zone summary has been provided for valuation purposes only and should not be relied upon for the purposes of determining whether a particular activity or development is permitted within the zone. Should you require further information in this regard, we recommend you consult with the North Shore City Council and the District Plan.

LOCATION & LOCALITY

The property is placed within the North Harbour Industrial Park, a relatively new although established industrial subdivision which enjoys a central position in relation to the surrounding and expanding North Shore urban areas. Saturn Place is within one of the more recent subdivisions, being that block of land to the northern side of Upper Harbour Drive, positioned between its intersections with William Pickering Drive and the motorway.

Situation is at No 12 Neptune Place, which is on its southernmost side, 100 metres from its intersection with Paul Matthews Road. Paul Matthews Road is the principal entrance point into the North Harbour Industrial Estate from the Upper Harbour Highway, the William Pickering Drive intersection having been changed to provide left in and left out turns only.

Neptune Place at this point has an ample width sealed carriageway with concrete kerbing and footpaths, grass berms, full underground city services and overhead street lighting. Neptune Place being a no exit street, has a relatively light traffic flow, however the locality as a whole enjoys excellent prominence to the Upper Harbour Highway and is likely to enjoy good demand in the market place.

As the locality is close to a major intersection, showroom, office and retail type developments are evident together with a new service station, testing station and vehicle servicing centre featuring *blue chip* tenants, positioned on the corner of Saturn Place, Paul Matthews Road and the Upper Harbour Highway. Remaining development in Neptune Place is predominantly office/warehouse units and apartment/warehouse units.

Excellent access to the northern motorway complex is available via the Upper Harbour Drive interchange with the Northern Motorway. Travelling time to and from Auckland's Central Business District would be approximately 15 minutes except during peak hours.

In summary this is a new though well established industrial region which benefits from close proximity to the North Shore's Wairau Valley, urban areas and motorways. The locality enjoys strong demand by both investors and tenants. We note there has been an increase in focus on the general locality over the past few years, this to a large extent occasioned by the construction of Massey University Campus, North Harbour Stadium and the Albany centre which has extensive bulk retail space, a substantial supermarket plus ancillary office and retail development.

LAND DESCRIPTION

The parent site is a near rectangular 2012 sq metre allotment having frontage to Neptune Place of 44.71 metres and average depth of approximately 45 metres.

Contour is a gentle rise from the street to the rear boundary. Aspect is southerly affording an outlook towards surrounding industrial development and the residential hinterland.

More particularly, the land associated with Unit D comprises that which it occupies together with the accessory units which comprise designated carpark spaces. The driveway and turning areas and landscaping are common property.

DESCRIPTION OF IMPROVEMENTS

Completed in 2001 the complex comprises a total of six office/warehouse units. Overall design and appearance is modern and aesthetically appealing, featuring full height glass curtain walling and alucobond panelling to an architectural entrance canopy to the road front office, areas, the warehouse space incorporating clear span full 6 metre stud height and full height roller doors.

General construction comprises concrete foundations and floor slabs, pre cast concrete slab boundary and inter tenancy walls, powder coated aluminium joinery with tinted/reflective glazing. Roofing is longrun steel in low pitch form laid over foil insulation and wire mesh supported by a steel structural frame. Translucent roof panels at regular intervals assist with natural lighting to the warehouse. Internally the office areas have commercial grade carpet and vinyl floorcoverings laid over a concrete floor to the ground level and particle board floors to the upper. Enclosing walls and subdivisional partitions are gibraltar board lined and feature numerous glazed panels. Ceilings to the ground level are plasterboard with surface mounted fluorescent lighting, whilst first floor ceilings are of a suspended type with flush mounted fluorescent lighting and ducted airconditioning.

Our inspection and report has been carried out for valuation purposes only and does not constitute a structural survey. Accordingly we have assumed in arriving at our valuation that there are no structural defects, the soil is stable and services are all in good working order. External and internal presentation is "as new".

Further layout construction details of Unit D are summarised as follows:

Ground Floor Offices

Lettable area approximately 74.7 sm. Main entry by way of covered canopy and glazed doorway into the entrance foyer and circulation hallway which features ceramic tiling to part and a generous sized under stair storage cupboard. Doorways open onto the warehouse, showroom, amenities and the front offices which feature glass internal partition walls.

Amenities comprise dual flush wc., porcelain handbasin, mirror, paraplegic handrail and draining vinyl floor. Storage cupboard with a small hot water cylinder adjoins.

First Floor Offices

Lettable area approximately 64.9 sm. A return staircase from the ground floor leads up to the first floor office which is of open plan design, and enjoys a high window to floor area ratio. Adjoining the rear are the amenities which comprise a kitchen with stainless steel sink bench plus cabinet and toilet facilities which comprise a dual flush wc., porcelain handbasin, extractor fan and draining vinyl floor.

Mezzanine Storage

Lettable area approximately 9.8 sm. Positioned off the warehouse and with ladder access only. Particle board floor.

Warehouse

Lettable area approximately 132.7 sm. 6 metre stud height regular functional floor plan. High bay lighting. Electric roller door to frontage.

Other Site Improvements

Cobblestone paving. Landscaping. Asphalt sealed driveway turning and parking areas.

LEASE DETAILS

We have been provided with a copy of the lease document which incorporates the following provisions:

Lease Format	Auckland District Law Society Third Edition 1993 (2)
Tenant	F Smith Ltd
Premises	Unit D, 12 Neptune Place, North Harbour
Term	Six years
Further Terms	Two of 3 years each
Commencement Date	17 November 2001
Annual Rent	\$34,141 pa as determined by Sheldon & Partners Ltd
Rent Review Date	18 November 2003, thence 2 yearly
Proportion of Outgoings	100%
Tenant Outgoings	All outgoings in accordance with ADLS Standard Net Lease format
Ratchet Clause	2.1B

The foregoing lease summary is provided for valuation purposes only and should not be relied upon for any other purposes. Please refer to the original lease documents for full details of the landlord's and tenant's obligations and rights under the lease.

MARKET CONSIDERATIONS

The commercial real estate market throughout the greater Auckland region over the period 1996 to 2000 was relatively stable with minor fluctuations in demand levels and activity dependent upon the economic climate at the particular time. There has been continuing strong demand by investors for well tenanted property with increasing focus being placed upon the strength of tenancies and lease term. Owner occupiers and investors are showing a steady level of interest and activity although the precise level of demand is dependent upon the property's particular physical and locational characteristics.

The first few months of 2001 saw a noticeable increase in the level of leasing and sales activity, largely attributable to an improvement in the economic climate and business confidence. In the second and third quarters of 2001 there was a general easing in the market, occasioned largely by cyclic factors. The events of September 11 also put a damper on the market place.

Since November 2001 there has been a strong demand for investment property, largely as a result of the low level of return for funds on fixed deposit and increased desirability of property over alternative forms of investment given the mixed global economic forecast. The good level of demand has had a positive effect upon property values.

The following market evidence which provides a useful comparison has been compiled from information held in our own files and a range of other sources in the market place. We have endeavoured to cross check the authenticity of the information supplied but this has not always been possible and therefore it can only be viewed as a guide.

Sales and leasing of interest include the following:

Unit D, 12 Neptune Place The subject property was purchased ex plans in February 2001 for \$325,000. The price is very reasonable being one of the first sales within the block and incorporating some "owner occupier" discount as there was no lease in place.

C/2 Neptune Place This modern road front business unit sold ex plans to an "owner occupier" in May 2001 at \$249,000 which on analysis would reflect a notional rent of \$92 psm for the warehouse and \$105 psm over the office accommodation capitalised at 10.0%. Alternatively the sale reflects an overall rate of \$1171 psm of gross floor area.

D/12 Saturn Place Comprises a new office/warehouse unit within a single block occupying a road frontage site. The warehouse has an area of 96.7 sq metres, the ground floor showroom 42.0 sq metres and the first floor offices 46.5 sq metres, giving a total area of 185.2 sq metres. SA Imports/Exports Limited entered an agreement to lease for six years with two yearly reviews and a right of renewal for a further six years. The lease is personally guaranteed for three years from the time of default. The rental equates to \$11 psf overall inclusive of carparks (\$118.79 psm) or alternatively allowing \$10 per week for each carpark a rate of \$10 per foot (\$107.55) is indicated. Sold in Mid 2000 for \$228,000 reflecting a yield of 9.65%.

Unit B, 1 Douglas Alexander Parade comprises an attractive road front industrial unit providing warehouse space and two levels of offices. The offices are carpeted and airconditioned with suspended ceilings installed while to the rear corner of the warehouse there is a functional storage mezzanine area. An unusual feature of the premises is that there is no pedestrian door linking the office area through to the warehouse, this appearing to be on account of a sublease arrangement between the tenants. The premises is subject to a six year lease commencing 19 March 2001 together with two rights of renewal, each of three years. The initial rental of \$29,993.50 pa plus GST can be analysed as follows:

Ground floor offices/storeroom	67.6 sm @ \$125 psm	8,450
First floor offices, incl stairs	61.8 sm @ \$135 psm	8,343
Warehouse, incl under mezzanine	126.9 sm @ \$ 90.17 psm	11,442
Mezzanine, incl over storeroom	44.0 sm @ \$ 40.00 psm	1,760
Contract Rental		<u>\$29,994 pa</u>

Unit D/68 Paul Matthews Road is a modern business unit positioned to the rear of a block which fronts Paul Matthews Road. The offices enjoy an outlook over the adjoining reserve and have some prominence to the road. The property sold to an investor in September 2001 at \$260,000 which represents an overall rate of \$1,362 per sq metre of building area or alternatively a notional rental of \$170 per sq metre over the offices and \$108 per sq metre over the warehouse, capitalised at 10.0%.

A1/12 Saturn Place Comprises a road front first floor office unit. The premises sold on a vacant possession to owner/occupier in March 2000 at \$313,000. On analysis the sale price reflects 191.4 sq metres of gross floor area at \$1,635 psm or alternatively a net area of 179.6 sq metres at \$1742 psm.

The owner occupier subsequently put a lease in place under standard ADLS net lease conditions for a six year term with two year rent reviews at \$37,700 pa which reflect \$172.52 psm (\$16.03 psf) over the partitioned office space plus eight open carparks at \$10 pw each. The property then onsold to an investor at \$396,800 which reflects a yield of 9.50% or \$2,209 psm net.

70 Paul Matthews Road – Gilbert Print Leased this road front industrial unit ex plans. The lease document specifies an overall rental rate of \$10.80 per sq ft of “as built” building area including canopies. The contract rental may be further analysed as follows:

First Floor Offices	139.8 sm @ \$187 psm (\$17.37 psf)	26,143
Mezzanine	92.4 sm @ \$ 59.97 psm (\$5.57 psf)	5,541
Ground Floor Offices	143.4 sm @ \$187 psm (\$17.37 psf)	26,816
Warehouse	509.3 sm @ \$100 psm (\$ 9.29 psf)	50,930
Under Mezzanine	80.0 sm @ \$100 psm (\$ 9.29 psf)	8,000
Rear Warehouse	188.9 sm @ \$100 psm (\$ 9.29 psf)	18,890
Office Canopy	7.1 sm @ \$ 42 psm (\$ 3.90 psf)	298
Warehouse Canopy	22.4 sm @ \$ 42 psm (\$ 3.90 psf)	941
Total Contract Rental		<u>\$137,559</u>

We understand the lease contract includes a purchase option, the price being based upon a 10% capitalisation rate. However there is a further deduction to allow for the fact that it is a private sale without agents commission which results in an equivalent capitalisation rate of approximately 10.3%.

B/24 Omega Street – Visualey Digital Signs Limited These premises leased to Digital Signs Limited for a 6 + 6 year term effective from 1 July 2001 at \$37,500 pa. The lessee also contracting to purchase the property in July 2002 at \$400,000 which reflects a yield of 9.38%.

59 Paul Matthews Road – Gateway Business Centre Completed late in 2000, this development comprises some nine business units falling within the 110-170 sq metre size bracket. Overall design of the complex is attractive featuring alucobond fascias and extensive glazing. Internal configuration for all but the road front offices is typically one third ground floor showroom, one third warehouse and one third first floor offices. The units were originally offered for sale or lease. Four units sold to owner occupiers and a company associated with the developer is holding the remaining units which leased. Further details are summarised as follows:

- ? **Unit 1 – Res Building Development Services** This road front unit had a lease negotiated in February 2001. The unit has an area of 172.7 sq metres and includes 5 carparks. The contract rental was set upon the basis of an overall rate of \$14.50 per sq ft inclusive of cars, plus a 15% return on ducted airconditioning to the first floor and a highwall unit to the ground level. The total contract rental is \$28,205 pa which reflects \$163.31 psm (\$15.17 psf) overall.
- ? **Unit 2** This courtyard frontage unit of 170 sq metres sold to an antique dealer/importer at \$240,000, the sale reflecting an overall rate of \$1,412 per sq metre.
- ? **Units 3 & 4** both sold to an investor ex plans. As these were the first units to sell within the complex the sale included a discount, the price being \$220,000 per unit which reflects \$1,295 per sq metre of building area.
- ? **Unit 5 – Via Venezia Ltd** Leased this courtyard frontage unit effective from 1 November 2000 for a 4 year term. The leasing incentives included a 2 month holiday. The contract rental is \$24,167 pa which reflects an overall rate of \$139.93 psm (\$13 psf). The unit sold in June 2001 for \$268,000 reflecting a yield of just over 9%.
- ? **Unit 7 – Just Prawns** This courtyard frontage unit of 170 sq metres let effective from 9 March 2001 under standard net lease conditions at \$24,718 pa with a one month rent holiday. On analysis the rental reflects an overall rate of \$145.31 psm or \$13.50 psf.
- ? **Unit 8 – Gateway Digital Print** Occupy this ground floor showroom/office unit of 107.2 sq metres. The premises are carpeted and airconditioned throughout and include an internal glass partition wall at rear. The lease term is 6 years under standard net lease conditions at \$26,542 pa which reflects an overall rate of \$247.59 psm (\$23 psf) inclusive of 5 carparks. Deducting the 5 carparks at \$10 per week each results in a residual rental of \$223.34 psm or \$20.74 psf.
- ? **Unit 9 – Fitted out offices** This office unit of 114 sq metres has been fitted out by the owner to provide a shared waiting area, circulation spaces plus amenities. The level of this fitout includes some furniture items. Various leases within this unit are summarised as follows:

Suite 1 – Designcom \$295.28 psm (\$27.43 psf) plus 2 cars @ \$10 pw

Suite 2 – Paragon \$363.16 psm (\$33.73 psf) plus 2 cars @ \$10 pw

Suite 3 - Glasson \$228.21 psm (\$21.20 psf) plus one carpark at \$10 pw

VALUATION

1 Replacement Approach

This method of valuation is based upon a summation of the property's land value and the cost of developing the improvements in order to arrive at a total replacement cost. The replacement cost of the improvements includes other site development and indirect development expenses such as holding charges and professional fees in order to arrive at a total replacement cost. For existing properties an allowance for physical depreciation is then made in order to arrive at a net cost/value of the improvements. This approach to value is considered to be a check method as it does not take directly into account the property's income earning potential which is the main market criteria for investment properties such as the subject. It is common for industrial and commercial property to sell at a price either above or below that indicated by the following approach, the variation dependent upon the supply and demand factors, the property's age, location and nature of tenancies. Calculations are as follows:

Land			
Equivalent Site Area	508 sm @ \$150 psm	76,200	
LAND VALUE, ADOPT			75,000
Improvements			
Ground floor	74.7 sm @ \$1,040 psm	77,688	
First floor offices	64.9 sm @ \$ 945 psm	61,331	
Warehouse	132.7 sm @ \$ 567 psm	75,241	
Mezzanine storage	9.8 sm @ \$ 189 psm	1,852	
Other Site Improvements		14,147	
Total Net Construction Cost		230,259	
Plus Indirect Development Expenses		20,833	
Total Development Cost		251,092	
VALUE OF IMPROVEMENTS, ADOPT			250,000
Capital Value Replacement Approach			\$325,000

2 Economic Approach

The following method of valuation is based upon a capitalisation based on the current market rental in order to arrive at its value from an investors viewpoint. The current contract rental was determined by this office and is in line with market evidence, summarised as follows:

Contract Rental

Ground floor offices	74.70 sm @ \$155 psm (\$14.40 psf)	11,579
First floor offices	64.90 sm @ \$155 psm (\$14.40 psf)	10,060
Warehouse	132.70 sm @ \$ 92 psm (\$ 8.55 psf)	12,208
Mezzanine storage	9.80 sm @ \$ 30 psm (\$ 2.79 psf)	294

Total Contract Rental \$34,141

Capitalisation

With regard to the available evidence bearing in mind the subject property's particular physical and locational characteristics plus lease terms, we capitalise the current contract rental as follows:

Total contract rental \$34,141 pa capitalised @ 9.25% = 369,091

MARKET VALUE – ECONOMIC APPROACH, ADOPT **\$370,000**

CONCLUSION

As this is primarily an investment property, the majority of reliance must be placed upon the economic approach to value as it makes due allowance for market conditions, whereas the replacement approach is considered a check as it does not take directly into account other additional development expenses such as profit and risk, developers margin, leasing fees and holding charges subsequent to completion, nor the property's income earning potential which is the main market criteria for investment properties such as the subject. Accordingly we adopt the property's market value as at 1 January 2002 as follows:

CURRENT MARKET VALUE \$370,000

VALUERS CERTIFICATE

I hereby certify that:

- 1 Although instructed by a representative of the owner, I have acted in an independent manner in arriving at my assessment.
- 2 All figures quoted in this report are exclusive of GST unless specifically stated otherwise.
- 3 Our inspection and report has been carried out for valuation purposes only and does not purport to certify the structural soundness of any buildings on the land, soil stability, type or condition of underground services. Furthermore, we have assumed the property is free from any factors which would cause the issue of an abatement notice or enforcement order under the provisions of the Resource Management Act 1991 and any building on the land is free from any defects which would prevent the issue of an annual building warrant of fitness if required under the Building Act 1991.
- 4 This valuation report has been prepared exclusively for the purpose of arranging mortgage finance. Our responsibility in connection with this report and the valuation contained within is limited to the client to whom the report is addressed. Neither the whole nor any part of this valuation and report or any reference to it may be included in any published document, circular or statement without the written approval of the author as to the form and context in which it may appear.
- 5 In our opinion the property currently provides adequate security for first mortgage investment under normal lending terms to a maximum amount of \$246,000 (TWO HUNDRED AND FORTY SIX THOUSAND DOLLARS) being two thirds of the assessed market value of \$370,000.

Should you require further explanation regarding any aspect of this report, I would welcome your enquiry. Thank you for your instructions.

Yours faithfully
SHELDON & PARTNERS LTD

A S McEWAN FNZIV FNZPI
REGISTERED VALUER