BEFORE THE INDEPENDENT HEARINGS PANEL

UNDER	the Resource Management Act 1991
IN THE MATTER	of proposed Plan Change 14: Housing and Business Choice to the Christchurch District Plan
AND	
IN THE MATTER	of Cambridge 137 Limited (Submitter 1092)

STATEMENT OF EVIDENCE OF HAYDEN DOODY ON BEHALF OF CAMBRIDGE 137 LIMITED

QUALIFYING MATTER: HERITAGE (HERITAGE SITES)

20 September 2023

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WYNN WILLIAMS

Introduction

1 My full name is Hayden Andrew Doody.

2 I am a Registered Valuer specialising in the valuation of commercial property throughout Canterbury. I am a Director in CBRE's Valuation and Advisory Services team (previously known as TelferYoung). I have been employed at TelferYoung/CBRE for 12 years and have been a Director for 8 years of that time. Prior to that, I was employed as a valuer at another firm in Christchurch for 3 years.

3 I have a Bachelor of Commerce (Valuation and Property Management) from Lincoln University.

4 I also hold the following professional qualifications/recognitions:

(a) Associate of the New Zealand Institute of Valuers (ANZIV)

(b) Senior Member of the Property Institute of New Zealand (SPINZ)

(c) Member of the Royal Institution of Chartered Surveyors (MRICS)

(d) Southern Region Councillor for the New Zealand Institute of Valuers

5 I have experience in a wide range of office, commercial and industrial properties including general consultancy, due diligence for acquisition, mortgage, financial reporting, feasibility analysis and insurance (including pre-loss/indemnity) valuations together with rental reviews and dispute resolution.

6 In 2012 I was appointed as Crown valuer to establish property values for land to be acquired by the Crown for key Anchor Projects in the Christchurch CBD as part of the Recovery Plan.

7 I have prepared valuations and acted in an advisory and expert witness capacity for a wide range of local and national commercial entities, lending institutions, local and central Government and publicly listed companies.

8 More specifically I have significant experience in the office sector, particularly within the Christchurch CBD. In recent years I have undertaken valuation assignments on multiple office/commercial developments, including heritage assets.

9 I confirm that I have read and am familiar with the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note 2023. I have complied with the Code of Conduct in preparing this evidence and I agree to comply with it while giving any oral evidence during this hearing. Except where I state that I am relying on the evidence of another person, my evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions that I express.

Scope of Evidence

10 I have prepared this evidence on behalf of Cambridge 137 Limited (submitter number 1092). My evidence provides valuations based on a range of development options for the Harley Chambers building with reference to reinstatement and replacement option cost estimates prepared by Mr Keeley Pomeroy of AECOM.

11 I first became involved with the Harley Chambers building in August 2023. Although I have not valued this property previously, I have completed valuations of, and provided advice for, a number of properties in the immediate location. I have completed an external inspection of the property. However, given the state of the building, I have not completed an internal inspection. This is an unavoidable departure from International Valuation Standards. Where I was unable to independently verify matters of fact such as the rentable floor area of the existing building, my valuation conclusions rely on data supplied to us and my own investigations. I would point out that the scope of my consultancy largely refers to the property following repairs and therefore the lack of an internal inspection is of little consequence to my conclusions.

12 In my evidence, I will address the marketability and realistic value of the Harley Chambers Building in light of the various reinstatement and replacement options considered for the development of the Building, namely:

(a) Existing Harley Chambers strengthened to 34% NBS;

(b) Existing Harley Chambers strengthened and repaired to 67% NBS;

(c) Existing Harley Chambers strengthened and repaired to 100% NBS;

(d) Proposed replacement building, existing façade retained; and

(e) Proposed replacement three level building.

13 I have prepared a valuation & consultancy report in relation to each of these options which is attached to my evidence as **Appendix A**.

14 In preparing my evidence, I have reviewed the following documents:

(a) Historic floor/layout plans;

(b) The Resource Consent Application for a previous proposed hotel development prepared in December 2017 by Planz Consultants;

(c) Cost Estimate Options prepared AECOM dated 12 September 2023;

(d) Statement of evidence of Mr Keeley Pomeroy dated 20 September 2023.

Executive summary

15 The principal improvement refers to Harley Chambers, a three level heritage office & medical related use building. The improvements were damaged in the earthquake events of 2010/11 and await remediation and/or demolition. I understand that the building achieves a seismic rating of less than 34% NBS and is therefore considered to be ‘earthquake prone’. The improvements are on a high profile corner site in a desirable position to the western fringe of the CBD.

16 The valuation outcomes I 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. I have also considered the valuation outcome on the basis of a new building being constructed with the existing façade retained and a newly constructed office building of contemporary standard of similar scale. The assessments carried out by CBRE consider the economic feasibility of each scenario based construction costings prepared by AECOM (and presented in the evidence of Mr Keeley Pomeroy).

Basis of the Harley Chambers Estimates

17 I have been requested to establish the amount that can be paid for the property in its existing state (value ‘as is’). I would point out, however, that this is complicated by a damaged building with a heritage listing remaining on the land. Given the heritage listing, and there being restrictions on alteration and demolition of heritage buildings under the

Christchurch District Plan, the client has obtained costings for a number of scenarios from AECOM to remediate and seismically strengthen the building.

18 In order to assess the values 'as is' based on the AECOM costings, I have adopted the 'Residual Approach' to value. The 'Residual Approach' requires that I first assess value on an 'as if complete' basis, assuming the works have been completed, and then deduct estimated costs to complete the works, together with an allowance for 'profit & risk' to compensate the purchaser an entrepreneurial return on investment. This approach reflects the process a prudent and informed purchaser would consider when pricing the asset.

19 To establish Market Value 'as if complete', I have utilised the Income Approach to value. The Income Approach is predicated on the conversion of net actual or market income, which either is, or could be, generated by an owner of the interest, to value. This method encompasses the conversion of net income (actual, market or notional) to value via the application of a capitalisation rate or yield (investment return). The basic premise of income capitalisation is that a property investor expects a pre-determined rate of return on their investment. The yield varies according to a number of factors including: risk, type & scale of investment, location, residual lease term and expected income and capital value growth. The two main variables, namely income and yield, are analysed from available rental and sales evidence; a range of rental and sales evidence considered in completing my valuations is outlined in my valuation & consultancy report attached as **Appendix A**. This is the principal method purchasers adopt for pricing an asset such as this property.

20 Lower capitalisation rates are applied to assets reflecting less risk and refer to prime assets including, but not limited to, variables such as strong locations, modern improvements, good lease terms with strong tenant covenants and some ability to capture rental growth. Higher capitalisation rates are applied to assets that reflect higher risk variables including, but not limited to, the likes of inferior location and improvement attributes, some potential future maintenance requirements, shorter lease terms or with vacancy and lesser favoured tenants.

21 The Income Approach is the most appropriate valuation methodology for an asset such as this and reflects the method of pricing adopted by market participants.

22 To establish the income for the property under the various scenarios outlined in paragraph 12 above, I have made comparison with recent rental settlements for comparable accommodation in the wider location. It is accepted that calculation of net income or rent for an office building/tenancy is via a rate per square of rentable floor area ($\$/m^2$). Adjustments are made for variation in factors such as the size and quality of accommodation, location and where the lease terms are varied.

23 The key market attributes that apply to the Harley Chambers property in assessing market rent are as follows:

(a) Office rents have increased over the last 12 – 24 months following strong demand and limited supply, and I envisage rents to increase further over the short to medium term due to the lack of supply of such spaces in the CBD.

(b) Limited supply of larger floor plate office accommodation available within the CBD.

(c) Well-regarded position to the western fringe of the CBD.

(d) The heritage nature of the building would likely appeal to tenants, as evidenced by a number of leasings in recent years.

(e) The lack of onsite parking may prove somewhat of a deterrent to some occupants.

24 In terms of refurbished/repurposed buildings versus new buildings, rental levels are generally similar, with market feedback being that tenants appreciate the heritage offered by many of the buildings and prefer a ‘point of difference’ in many instances. It appears that rental levels do not vary for buildings achieving 67% NBS versus 100% NBS. Similar applies to buildings where a heritage façade is retained and a new structure completed at the rear.

25 A number of heritage buildings have been refurbished in the CBD in recent years with notable examples, and rental levels achieved, summarised below:

(a) The 'Public Trust Building' at 152 Oxford Terrace, where tenancies have leased for between \$325.00/m² and \$400.00/m² for conventional spaces. Some smaller suites are provided, with rental levels in excess of those quoted reflecting scale.

(b) The 'Midland Club' at 176 Oxford Terrace, where tenancies have leased for between \$365.00/m² and \$445.00/m² for the upper levels.

(c) The 'MED Building' at 210 Armagh Street, where tenancies have leased for between \$345.00/m² and \$370.00/m².

(d) 144-146 Lichfield Street, with the first floor analysing to \$325.00/m².

(e) The leasing at 214 Cashel Street, analysing to \$407.97/m², being the former 'Farmers' building to the eastern fringe of the CBD. In this instance, the heritage façade was retained and the interior refurbished some years ago. The tenancy leased with full fitout in place.

26 In terms of the evidence of modern/post-earthquake buildings, leasings typically analyse to rental rates of \$350.00/m² and \$430.00/m². Notable examples include:

(a) Cambridge Partners at 62 Worcester Street, analysing to \$357.42/m² on the office. This is a level five tenancy in Anthony Harper Tower, a short distance west of the subject.

(b) Chubb at 135 Cashel Street, analysing to \$395.00/m², refers to a first floor tenancy in the ANZ Building, in well-regarded position to the eastern fringe of the CBD.

(c) Crew Consulting Limited at 173 Gloucester Street, analysing to \$428.48/m². This is a new low rise building to the eastern fringe of the CBD, in an inferior position. I note that the tenancy includes some landlord fitout.

(d) SBS at 134 Victoria Street, analysing to \$350.00/m² refers to a post-earthquake building to the northern fringe of the CBD, in an inferior position.

27 Please note that all rents quoted are exclusive of outgoings.

28 Following repair or redevelopment, I envisage the property would be met with good tenant demand, given the well-regarded position. In my opinion, rental levels of between \$400.00/m² and \$435.00/m² are appropriate for the upper levels of subject building on the basis of essentially open plan accommodation or spaces with limited partitioning. For clarity, it may be possible to achieve higher rental rates for smaller tenancies/office suites, however, this will no doubt result in significant fitout expense, increased management burden and increased investment risk as a result of short term leases, common area provision/maintenance and tenant churn; there would be little, if any, financial benefit in completing this. A higher rental rate is appropriate for the ground floor noting the quasi-retail accommodation.

29 In terms of the market for investment properties, few sales of large scale assets (>\$5m) have occurred in Christchurch over the last 18 months as a result of the availability and cost of debt. Yields have increased for large scale assets as a result of the increased cost of debt. It appears that purchasers of such assets are requiring higher returns to offset cash flow shortfalls as a result of rising borrowing costs and I am now of the opinion that a ‘prime’ yield would be in the region of 5.35%, much higher than the 4.50%-4.85% achieved in 2021. The smaller scale assets (<\$2.0m), do not appear to have been as negatively impacted, however.

30 In terms of yields, typically, valuers would place most weight on an ‘Equivalent Yield’. The ‘Equivalent Yield’ represents the return on market income but reflecting known value adjustments such as income shortfalls/surpluses, vacancy, leasing costs and other capital items that a market participant would recognise. It typically represents the relationship between passing and market income and is generally a ‘weighted average’ of the two. As outlined in my report at Appendix A, As detailed in the report, I have analysed equivalent yields for a range of properties at between 4.34% and 7.26%. The property listed in the report analysing to a yield to the lower end of the range refers to a smaller scale refurbished heritage asset that sold in superior market conditions; given the current market, a higher yield is appropriate for the Harley Chambers property. The property listed in the report analysing to a yield to the upper end of the range refers to a retail asset in an inferior location where the vendor was under some lender pressure to dispose of the asset; a lower yield is appropriate for the subject.

31 Based on the sales evidence and reflecting the key investment criteria of the Harley Chambers property, assuming a fully leased asset, I have concluded appropriate returns of 5.65% to 5.75%. Although the adopted yields are below those analysed from many of the recent sales outlined in my valuation report, the property is in a prominent position and the historic nature of the property would appeal to occupants and investors alike in my view, as has been suggested by previous transactions.

32 In my experience there is no clear evidence to suggest a marked yield differential for an asset of this scale and nature that has been seismically strengthened to 67% NBS or 100% NBS.

Option 1: Building reinstatement and strengthening to 34% NBS

33 Please note that the Income Approach has not be adopted for Option 1: Building reinstatement and strengthening to 34% NBS. The 34% NBS seismic rating is significant as the market perception from both an investment or occupational viewpoint is poor, with participants typically requiring minimum 67% NBS seismic compliance.

34 Therefore spending $19.380 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 my report demonstrate this is not economically feasible.

35 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.

36 My approach to the 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, I 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.

Valuations 'As if Complete'

37 The concluded valuations for the property based on the Reinstatement and Replacement Options are summarised below, with full rationale detailed in my valuation report:

Option	**1A - 34% Strengthen + Repair**	**1B - 67% Strengthen + Repair**	**1C - 100% Strengthen + Repair**	**2A - Façade + New Build**	**2B - New Open Plan Build**
Value 'as if complete'	N/A	13,225,000	13,460,000	13,825,000	15,860,000

Table 1. Summary of values 'as if complete' from the various options based on costings established by AECOM.

Valuations 'As Is' Based on Reinstatement and Replacement Options

38 Option 1A: Building Reinstatement & Strengthening (34% NBS) is not a realistic scenario to undertake given the leasing and investment markets would not accept a building of this nature at 34% NBS. As such, I have adopted a valuation scenario whereby a developer would seek to remove the heritage listing. I have established a value of $3,335,000 via this method.

39 The concluded valuations 'as is' have been derived using the cost estimates for the reinstatement and replacement options prepared by Mr Keeley Pomeroy of AECOM as follows in Table 2.

Option	**1A - 34% Strengthen + Repair**	**1B - 67% Strengthen + Repair**	**1C - 100% Strengthen + Repair**	**2A - Façade + New Build**	**2B - New Open Plan Build**
AECOM costings	19,380,000	25,400,000	27,830,000	20,850,000	13,630,000

Table 2 – AECOM costings

40 The 'as is' valuations are summarised below in Table 3. It should be noted that these figures are not simply derived by subtracting the costs from the 'as if complete' valuations in Table 1. As is detailed in my report the residual value figures also include an allowance for the profit and risk on outlay

Option	1A - 34% Strengthen + Repair	1B - 67% Strengthen + Repair	1C - 100% Strengthen + Repair	2A - Façade + New Build	2B - New Open Plan Build
Residual value/value 'as is'	N/A	(14,715,000)	(16,955,000)	(9,795,000)	(340,000)

Table 3. Summary of Residual values from the various options based on costings established by AECOM.

41 Please note that Option 2B is a variation on the other options given it reflects resource consent having been obtained to remove the heritage improvements. This is more so of a hypothetical scenario than the other methods as it does not reflect any direct or indirect costs of removing the heritage listing/obtaining resource consent to enable demolition of the improvements. Obviously, significant additional costs would apply in this scenario, which are not reflected in the valuation method. Further, the scenario does not reflect additional demolition costs likely to be incurred such as removal of the basement, backfilling the site and contamination removal.

42 All scenarios are uneconomic from a commercial pragmatic feasibility perspective.

43 The disconnect between the costs of repairing and strengthening the existing 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. A significant loss would be incurred by any person undertaking the repair and strengthening programme.

44 The above comments also hold true for the façade retention scenario save for the disconnect between cost and end value being lessened, although still material. Again, retaining a façade is 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, the scenario would result in a significant loss to any person undertaking the project.

45 As previously outlined, option 2B is a variation on the other options given it reflects consent having been obtained to remove the heritage improvements. This is more so of a hypothetical scenario than the other

methods as it does not reflect any direct or indirect costs of removing the heritage classification to enable demolition of the improvements. Obviously, significant additional costs would apply in this scenario, which are not reflected in the valuation method. The resultant value suggests a negative value assuming there is no heritage classification. If costs to remove the heritage classification are factored, the resultant value would be a substantial negative value.

46 It is acknowledged as unusual that a replacement office building is not economically viable, however, it has not been uncommon historically in the Christchurch market for a residual calculation to result in such an outcome. Notably, many Christchurch developers have taken a long term, and optimistic view, with development, accepting a small value impairment (or loss of value) relative to the completed development value (value 'as if complete') where the development profit offsets the impairment. However, in the case of the subject property, the impairment is significant, resulting in impairment essentially equivalent to the 'as if complete' value. Furthermore, I note that even under the scenario demonstrating the lowest impairment margin (i.e. Option 2A), the 'loss' is essentially double our opinion of land value as a vacant unencumbered site and it is significantly greater than the development profit demonstrated from that scenario. Based on the costs to complete the various reinstatement and replacement options in this instance, and the scale of impairment, in my opinion no prudent and informed party would undertake the works.

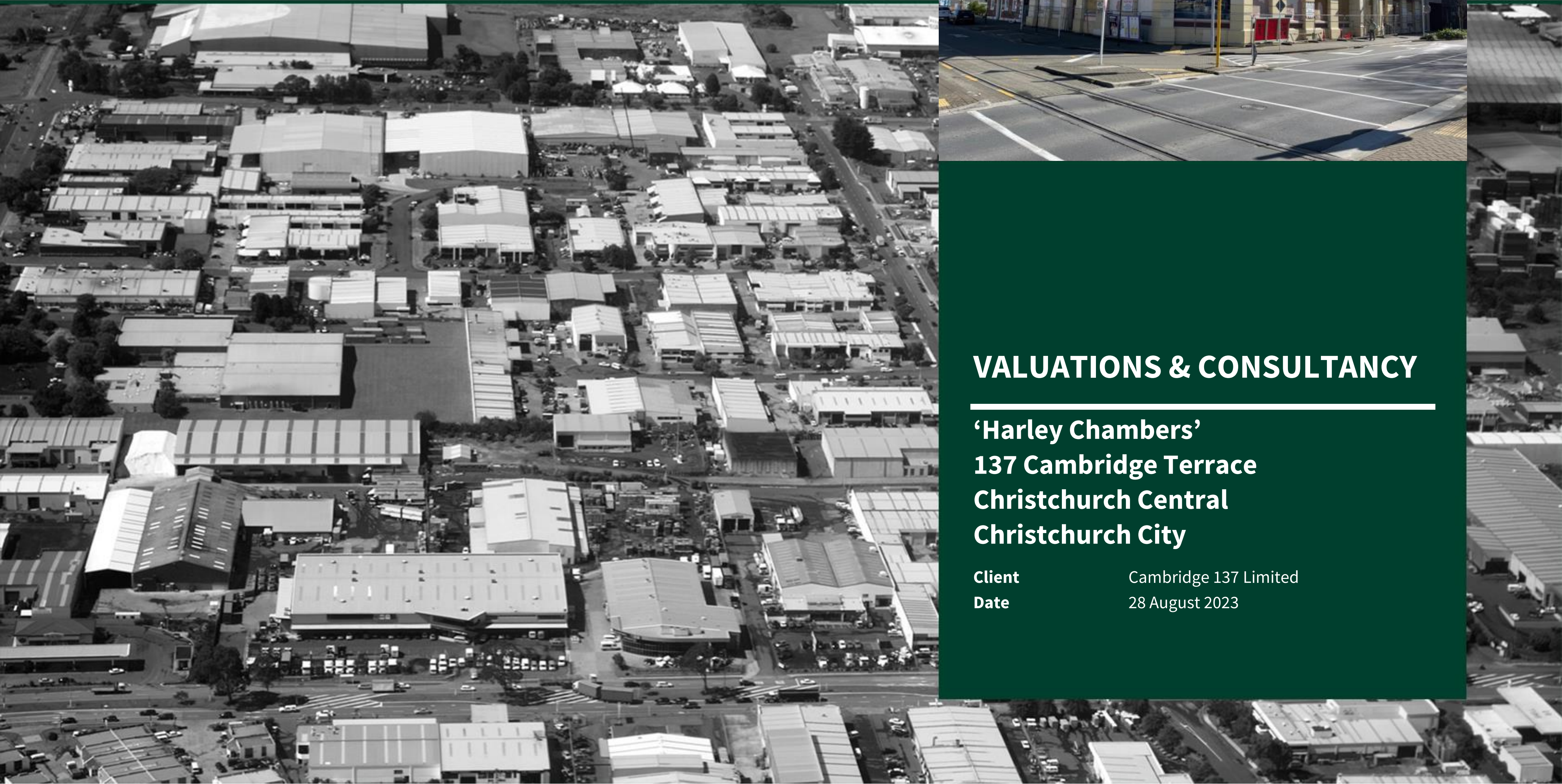
………………………………………..

Hayden Doody

20 September 2023

Appendix A

Telfer Young Valuation and Consultancy Report dated 28 August 2023



VALUATIONS & CONSULTANCY

'Harley Chambers'
137 Cambridge Terrace
Christchurch Central
Christchurch City

Client Cambridge 137 Limited

Date 28 August 2023

CONTENTS

1.0 EXECUTIVE SUMMARY

137 Cambridge Terrace, Christchurch Central, Christchurch City

The principal improvement refers to Harley Chambers, a three level heritage office & medical related use building. The improvements were damaged in the earthquake events of 2010/11 and await remediation and/or demolition. We understand that the building achieves a seismic rating of less than 34% NBS and is therefore considered to be 'earthquake prone'. The improvements are on a high profile corner site in a desirable position to the western fringe of the 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. Further, on the basis of the demolition and a new building with existing façade retained and a newly constructed office building of contemporary standard of similar scale. Our assessments consider the economic feasibility of each scenario based construction costings prepared by AECOM.

PROPERTY DETAILS

Type Office & medical rooms (unoccupied since 2010/11)

Zoning Commercial Central City Business Zone

Year built Built 1928; extended 1933

Land area 938m²

Rentable floor area 1,785m²
(estimated, based on plans provided)

NBS rating Less than 34%

OCCUPANCY DETAILS

Occupancy Vacant

SUMMARY OF VALUATION SCENARIOS

We summarise the resultant values as follows:

Option 1A: Building Reinstatement & Strengthening (34% NBS) is not a realistic scenario to undertake given the leasing and investment markets would not accept a building of this nature at 34% NBS. As such, we have adopted a valuation scenario whereby a developer would seek to remove the heritage listing. We have established a value of **$3,335,000** via this method.

Scenario	'As if complete' value	Residual value
Option 1B: Building Reinstatement & Strengthening (67% NBS)	$13,225,000	($14,715,000)
Option 1C: Building Reinstatement & Strengthening (100% NBS)	$13,460,000	($16,955,000)
Option 2A: Retained Historic Façade with New Open Plan Office Building Connected (100% NBS)	$13,825,000	($9,795,000)
Option 2B: New Open Plan Office (100% NBS)	$15,860,000	($340,000)

Please note that Option 2B is a variation on the other options given it reflects consent having been obtained to remove the heritage improvements. This is more so of a hypothetical scenario than the other methods as it does not reflect any direct or indirect costs of removing the heritage classification to enable demolition of the improvements. Obviously, significant additional costs would apply in this scenario, which are not reflected in the valuation method. Further, the scenario does not reflect additional demolition costs likely to be incurred such as removal of the basement, backfilling the site and contamination removal.

INSTRUCTIONS

Instructed by Jonathan Lyttle of Cambridge 137 Limited

Report prepared for Cambridge 137 Limited

Purpose of valuations Market Value for feasibility analysis

Basis of valuations Market value

Valuation date 28 August 2023

Report issue date 18 September 2023

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

PREPARED BY

Hayden Doody B Com (VPM), SPINZ, ANZIV, MRICS
Registered Valuer & Chartered Surveyor
Director

This report must be read in conjunction with CBRE Limited t/a TelferYoung from CBRE Statement of Limiting Conditions and Valuation Policy.

2.0 ASSUMPTIONS

SIGNIFICANT ASSUMPTIONS AND SPECIAL ASSUMPTIONS

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

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

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

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

- Given the state of the building, we have not completed an internal inspection. This is an unavoidable departure from International Valuation Standards. Where we are unable to independently verify matters of fact such as the rentable floor area of the existing building, our valuation conclusions rely on data supplied to us and our own investigations. We would point out that the scope of our consultancy largely refers to the property following repairs and therefore the lack of an internal inspection is of little consequence to our conclusions.
- Our residual valuation conclusions rely upon construction costs as provided by AECOM as experts in these matters.
- Option 2B: New Open Plan Office (100% NBS) does not contemplate costs associated any direct or indirect costs of removing the heritage classification to enable demolition of the improvements. Obviously, significant additional costs would apply in this scenario, which are not reflected in the valuation method.

3.0 SCOPE OF WORK

The valuer

The valuation consultancy has been undertaken by Hayden Doody who provides this advice in an objective, unbiased, ethical and competent manner. The valuer has no material connection with the instructing party or interest in the property and has the appropriate qualifications and experience to undertake the assignment.

Our client

Cambridge 137 Limited.

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

Other intended users

Nil.

Purpose of valuations

Market Value for feasibility analysis.

Asset valued

137 Cambridge Terrace, Christchurch Central, Christchurch City.

Basis of valuations

Market Value is defined in International Valuation Standards as:

> *The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*

Valuation currency

All dollars quoted in this report are NZD.

Important dates

Inspection date	28 August 2023
Valuation date	28 August 2023

Extent of investigations

Given the state of the building, we have not completed an internal inspection. This is an unavoidable departure from International Valuation Standards. Where we are unable to independently verify matters of fact such as the rentable floor area of the existing building, our valuation conclusions rely on data supplied to us and our own investigations. We would point out that the scope of our consultancy largely refers to the property following repairs and therefore the lack of an internal inspection is of little consequence to our conclusions.

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

Nature and source of information relied upon

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

Name of Document	Source of Document
Excerpt from original plans	canterburystories.nz
Historic floor/layout plans	Client
Resource Consent Application for a proposed hotel development prepared December 2017 by Planz Consultants	ccc.govt.nz
Cost Estimate Options prepared 12 September 2023 by AECOM	Client

Reporting format

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

This report must be read in conjunction with CBRE Limited t/a TelferYoung from CBRE Statement of Limiting Conditions and Valuation Policy.

Valuation standards

Our advice has been prepared in accordance with International Valuation Standards (effective 31 January 2022) and Guidance Papers for Valuers and Property Professionals published by the Australian Property Institute (API), Property Institute of New Zealand (PINZ) and New Zealand Institute of Valuers (NZIV).

4.0 RECORDS OF TITLE

4.1 TITLE INFORMATION

The property encompasses two estates in Fee Simple, with Record of Title Identifiers issued as follows:

Identifier	Legal description	Area
CB18K/449	Part Lot 1 Deposited Plan 6773	503 m^2
CB18K/448	Part Lot 1 Deposited Plan 6773	435 m^2
Total land area		**938 m^2**

Both are located in the Canterbury Land Registration District. The registered owner of each title is recorded as Cambridge 137 Limited.

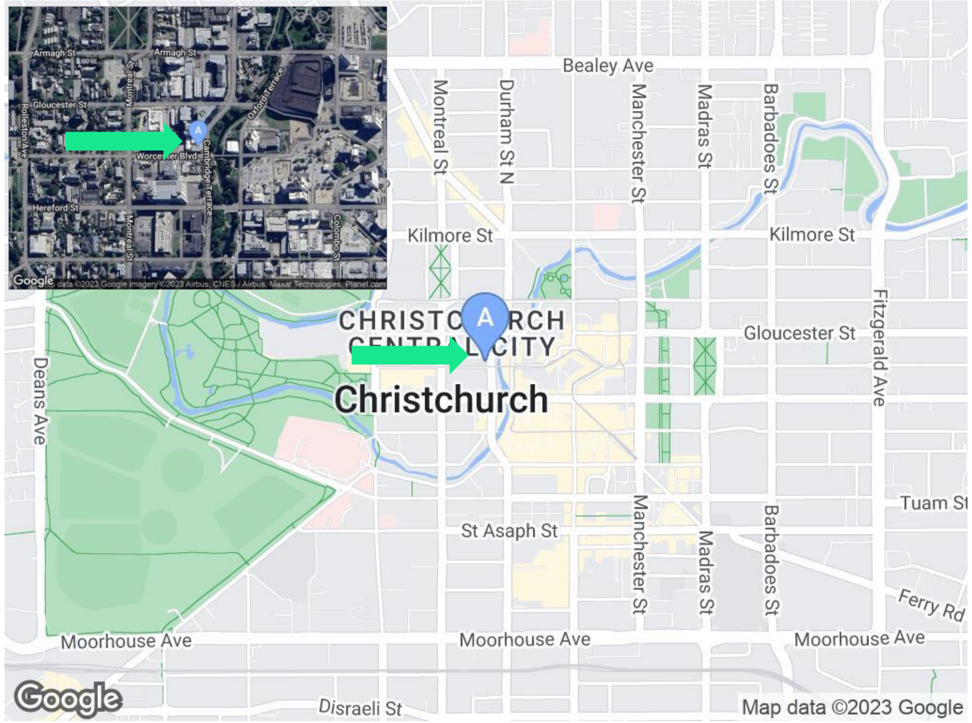
We note the following interests that are registered in each title:

- Transfer 205608, creating reciprocal right of way easements with the neighbouring property to the west.
- Land Covenant in Covenant Instrument 12792011.1 - 2.8.2023. The Covenant outlines that the Covenantor (owner of the adjacent property at 69 Worcester Boulevard) will not object to any resource consent application for the Benefitted Land (subject property) made by the Covenantee (owner of the subject property). Further, the Covenantor will, if requested by the Covenantee, provide the Covenantor's written consent to any resource consent application for the Benefitted Land made by the Covenantee.

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

5.0 LOCATION

5.1 LOCATION DETAILS



Suburb Christchurch Central

Location The property is situated to the north-western intersection of Cambridge Terrace and Worcester Boulevard.

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.

6.0 LAND

6.1 SITE DESCRIPTION

Area	938 m^2 (more or less) (two titles)
Shape	Near rectangular, with a corner splay
Contour	Essentially level
Services	Typical urban services appear connected or are assumed connected 'as if complete'.
Access	Pedestrian access is presently available off both street frontages. No vehicular access is presently provided for
Comments	This is a regular-shaped corner site with a south-easterly aspect. The building occupies the majority of the land, with the exception of a small, central courtyard. Notably, the property lacks onsite carparking, which may deter occupants of the remediated building.
Contamination	We have not been provided with an environmental audit of the property and we are not aware of any potential environmental concerns. We refer you to our Statement of Limiting Conditions and Valuation Policy on matters relating to potential contamination.

7.0 RESOURCE MANAGEMENT

7.1 ZONING INFORMATION

Territorial authority	Christchurch City
Plan status	Operative
Zone	Commercial Central City Business Zone

Zone description

The Commercial Central City Business Zone is the principal employment and business centre for the City and wider region and the primary destination for a wide range and scale of activities including comparison shopping, dining and night life, entertainment activities, recreation and community activities as well as civic and cultural venues, events and tourism activities.

Permitted activities

Retail activity, Commercial services, Entertainment activity, Recreation activity, Gymnasium, Community facility, Education activity, Day care facility, Preschool, Health care facility, Spiritual activity, Office, Residential activity, Visitor accommodation, Art studios and workshops, Retirement village

Development controls

- No building setback across the full width of the property except for a vehicle crossing
- Verandas (or means of weather protection for pedestrians) are provided on all buildings with an 'active frontage'
- Minimum of two floors above ground level
- A minimum ground floor height of 3.5 metres
- Carparking at ground level shall not be within 10 metres of the road boundary
- Building setback with landscaping of 3 metres from residential zones
- Maximum building height of 28 metres

Notations

The property is in a Flood Management Area which covers large areas of Christchurch. New construction and extensions within these areas must be built above certain levels as established by the City Council through a Minimum Floor Level Certificate. Restrictions are placed on filling land in these areas.

The property is in a Liquefaction Management Area. This is an area-wide notation whereby property is likely to experience liquefaction in a large shaking event. Additional investigation is likely if subdivision is envisaged.

Heritage

The building has been identified as a 'Group 2 - Significant' heritage item by Christchurch City Council. As a result, restrictions apply to alterations and demolition. Further information can be obtained via the following links to the heritage assessment:

https://districtplan.ccc.govt.nz/Images/DistrictPlanImages/Statement%20of%20Significance/Central%20City/HID%2078.pdf

Comments

We proceed on the basis of all necessary consents being obtained to permit the proposed development scenarios.

7.2 RATING VALUATION

As at 1 August 2022:

Land Value	Improvements Value	Capital Value
$3,000,000	**$0**	**$3,000,000**

Rating Valuations are conducted on a mass appraisal basis, generally once every three years, in order to provide a basis to assist territorial authorities to collect revenue through rates. Individual properties are not inspected on a regular basis and changes in the improvements may not be recorded. The rating values are expressed on a Freehold Estate basis.

7.3 LAND INFORMATION MEMORANDUM

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

We have searched the property on Environment Canterbury's Listed Lane Use Register. The Listed Land Use Register does not currently have any information about a Hazardous Activities and Industries List site on the land parcels.

8.0 IMPROVEMENTS

8.1 OVERVIEW

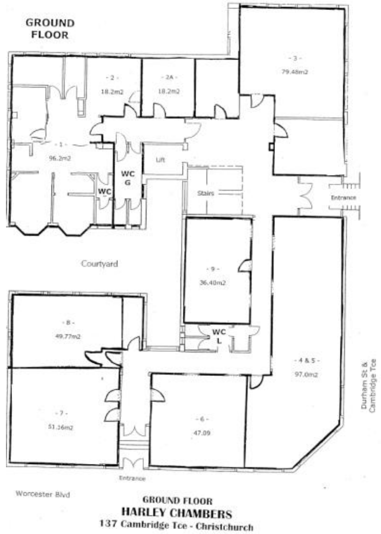
The principal improvement refers to Harley Chambers, a three level heritage office & medical related use building.

The heritage assessment prepared by Christchurch City Council details that *"The building at 137 Cambridge Terrace is of historical and social significance as purpose built medical and dental rooms for Mr A E Suckling a dentist. The building was designed in 1924 and built in 1928 with extensions in 1934. In 1933 Suckling passed ownership to Harley Chambers Limited. The building housed waiting rooms, offices and surgeries for a number of professionals to operate their medical related practices in the same place in the central city"*. We understand that the building was occupied for a range of uses at the time of the earthquakes.

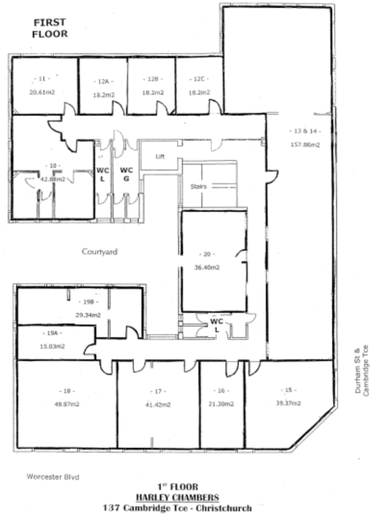
The improvements were extensively damaged in the earthquake events of 2010/11 and await remediation and/or demolition. We understand that in their present state, the improvements achieve a seismic rating of less than 34% NBS and are therefore they are considered to be 'earthquake prone'.

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

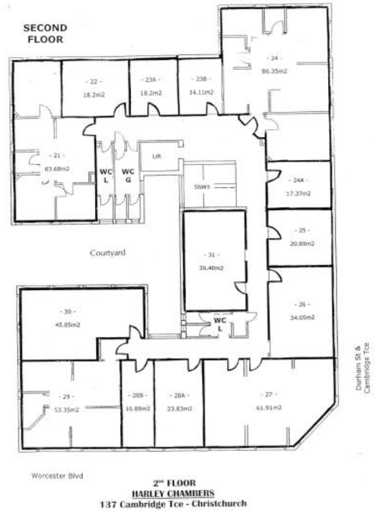
We understand the existing layout of the building is as follows:



Ground floor



First floor



Second floor

8.2 REMEDIATION SCENARIOS

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. Further, on the basis of the demolition and a new building with existing façade retained and a newly constructed office building of contemporary standard of similar scale.

Our assessments consider the economic feasibility of each scenario based the remediation scope costings prepared by AECOM.

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

8.2.1 Option 1A: Building reinstatement & strengthening 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.

8.2.2 Option 1B: Building reinstatement & strengthening to 67% NBS

Under this scenario, the following key factors apply:

- We calculate the rentable floor areas, based on floor plans provided, as follows:

Rentable Areas		
Tenant	**Rentable Area (m^2)**	**% of total**
Ground floor	560.0 m^2	31.4%
First floor	615.0 m^2	34.5%
Second floor	610.0 m^2	34.2%
Total rentable area	**1,785.0 m^2**	

- Our valuation considerations assume seismic strengthening to a 67% NBS compliant level.
- Retention of heritage features such as stairs & balustrades, doors, hardwood flooring, marble flooring to the ground floor, marble wall tiles to the foyer and ceramic tiles to the bathrooms.
- No onsite carparking is provided. This is a strong requirement of occupiers and therefore a detriment to achieve tenants and ultimately impacts end value.
- We have assumed the floors would essentially be provided on an open plan basis.
- We have assumed internal refurbishment, whereby new floor coverings, wall and ceiling finishes, appropriate lighting and air conditioning services are provided throughout. Further, we have assumed refurbished bathroom amenities and staff cafeteria facilities. Externally, we have assumed the cladding fabric is remediated and painted and the roof repaired. These items have been incorporated in the AECOM costing.
- Overall, the intent of the repair and refurbishment programme being to provide a replication of the existing building with refurbished fitout to meet today's requirements.

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 have not been extensively refurbished. As detailed later in this report, there are many examples of heritage buildings that have been repaired and successfully let.

8.2.3 Option 1C: Building reinstatement & strengthening to 100% NBS

In practise, for all intents and purposes, 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. Stakeholders, such as lenders and insurers, are typically satisfied with a seismic rating of not less than 67% NBS for an asset of this scale and nature.

8.2.4 Option 2A: Retained historic façade with new open plan office building

Under this scenario, we are ultimately considering a reinstated building scenario, however, being constructed within the confines of the existing façade. The following assumptions apply:

- Rentable floor areas adopted remain consistent with the reinstated building scenarios noted above.
- We again assume compliance with 100% NBS.
- Similar interior fitout assumptions to those previously adopted apply. Notably, however, the interior will be akin to a new building, obviously lacking any heritage features.

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 an identical external appearance.

8.2.5 Option 2B: New open plan office

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:

- AECOM calculate a gross floor area of 2,281m². On this basis, and with reference to our analysis of office buildings in the wider location, we estimate a rentable floor area (following adjustment for items such as the ground floor entrance foyer, external walls, etc) for rental comparison purposes of 2,000m², apportioned as follows:

Rentable Areas		
Tenant	Rentable Area (m²)	% of total
Ground floor	650.0 m²	32.5%
First floor	675.0 m²	33.8%
Second floor	675.0 m²	33.8%
Total rentable area	**2,000.0 m²**	

- An appealing contemporary office building of average market standard, not superior nor inferior, akin to nearby buildings such as 299 Durham Street occupied by Mortlock McCormack Law, the Awly Building, the Lane Neave building or Ngai Tahu's redevelopment of the site at the intersection of Cambridge Terrace and Hereford Street.
- Configuration comprising ground level entrance foyer, a ground tenancy of quasi retail nature with upper level open plan office floors.
- We have assumed the tenancies are 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 structure, 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.

9.0 OCCUPANCY DETAILS

9.1 INTRODUCTION

The proposals are not subject to leases and therefore in considering values via the income based methods, we have adopted lease commensurate with current market conditions, following three month vacancy periods following completion of the works.

9.2 OPERATING EXPENSES

We intend to consider rents on a 'net' basis, whereby outgoings are recoverable from the tenants, however, outgoings will be unrecovered during periods of vacancy. To this end, outgoings for low rise offices in the CBD typically analyse to between $90.00/m² and $130.00/m². We intend to adopt a rate towards the upper end of the range in this instance noting the scale of the building, the heritage nature and the position.

10.0 VALUATION CONSIDERATIONS

10.1 VALUATION BASIS

We have been requested to establish the amount that can be paid for the property in its existing state (value 'as is'). We would point out, however, that this is complicated by a damaged building with a heritage classification remaining on the land. Given the heritage classification, and there being restrictions on alteration and demolition, our client has obtained costings from AECOM to remediate and seismically strengthen the building.

In order to assess the values 'as is' based on the AECOM costing, we have adopted the 'Residual Approach' to value. The 'Residual Approach' requires that we first assess value on an 'as if complete' basis, assuming the works have been completed, and then deduct estimated costs to complete the works, together with an allowance for 'profit & risk' to compensate the purchaser an entrepreneurial return on investment. This approach reflects the process a prudent and informed investor would consider when pricing the asset.

10.2 REPAIR COST ESTIMATES

To assist in establishing the value 'as is' we have been provided with Cost Estimate Options prepared 12 September 2023 by AECOM for a range of reinstatement scenarios as previously discussed. We summarise the costings as follows:

Scenario	Cost estimate
Option 1A: Building Reinstatement & Strengthening (34% NBS)	$19,380,000
Option 1B: Building Reinstatement & Strengthening (67% NBS)	$25,400,000
Option 1C: Building Reinstatement & Strengthening (100% NBS)	$27,830,000
Option 2A: Retained Historic Façade with New Open Plan Office Building Connected (100% NBS)	$20,850,000
Option 2B: New Open Plan Office (100% NBS)	$13,630,000

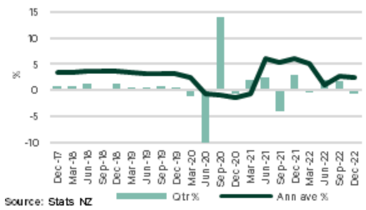
Please note that Option 2B is a variation on the other options given it reflects consent having been obtained to remove the heritage improvements. This is more so of a hypothetical scenario than the other methods as it does not reflect any direct or indirect costs of removing the heritage classification to enable demolition of the improvements. Obviously, significant additional costs would apply in this scenario, which are not reflected in the valuation method. Further, the scenario does not reflect additional demolition costs likely to be incurred such as removal of the basement, backfilling the site and contamination removal.

11.0 MARKET COMMENTARY

11.1 ECONOMIC OVERVIEW

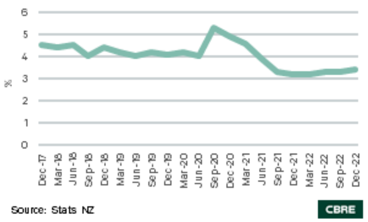
- Q1 GDP for the 1st Quarter of FY 2023 showed a seasonally adjusted fall of 0.1%. This follows a -0.7% q/q drop in production GDP for Q4 2022. This means that the NZ economy meets the technical definition of a recession.
- Not all factors however are posing downside risks for the economy. Migration is bouncing back strongly as is tourism, and both will exert positive economic influences during 2023.
- While cost expectations remain elevated, pricing intentions are inching lower indicating that domestically generated inflation pressures are losing some steam. Annual CPI for Q2 2023 was 6.0% (down from 7.2% in Q4 2022), with main contributors being food, construction and rental costs.
- The market continues to expect that CPI will be back within the 3% target ceiling by Q2 2024, but a wide range of opinion remains on how quickly inflation will fall in the next few quarters, especially given the rebuild implications of the recent weather events.
- This uncertainty has imbued a cautious attitude from both the RBNZ and the market. Longer term rates have been unusually volatile in Q1 2023 reflecting unexpected events and influences such as stronger than expected US economic data and the emerging crises in the banking sector.
- An elevated level of uncertainty is likely to persist as the diverse mix of significant global and local economic and monetary influences play out in coming months.

GDP



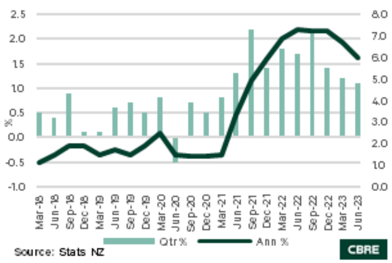
Q1 GDP was down 0.1%. The result was in line with economists' expectation in a poll by Reuters, and at odds with the Reserve Bank forecast of 0.3% growth. Most parts of the economy slowed or contracted, with services, exports, and agriculture offsetting a slight rise in construction. Business services were the biggest downwards driver, falling 3.5%.

Unemployment rate



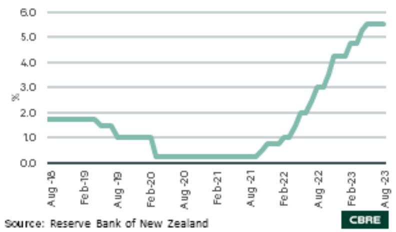
The unemployment rate of 3.4% in December remains at long terms lows although represents a slight increase from early 2022. Employment growth remains positive albeit somewhat past its cyclical peak rates.

CPI inflation



Annual CPI for Q2 2023 was 6.0%, below wider market expectations, after peaking at 7.3% in the Q2 2022 quarter. Key contributors include food, construction costs and rent.

Interest rates



Swap and bond rates have been volatile in Q1 2023 due to uncertainties associated with how quickly inflation will be brought under control both locally and in the US as well as due to fears of contagion from banking sector stress. The OCR rose another 25 bps in May to 5.5% with the RBNZ signalling no further increases in the current cycle.

11.2 CHRISTCHURCH PROPERTY MARKET OVERVIEW

Key market changes:

- Retail spend in Christchurch was robust during Q1 2023, helped by the arrival of international visitors. Prime net effective rents have been stable at the benchmarks established earlier in 2022.
- The industrial market continued to show significant growth in recent quarters. High demand for new and existing buildings meant that vacancy decreased significantly from its already low levels, accompanied by strong rental growth, both in the Prime and Secondary submarkets.
- In H2 2022, there was a modest increase in office vacancy due to yet to be occupied stock additions and a few tenancy contractions.
- While the lack of transactional activity continues to hamper calls on pricing, the interest rate influence cannot be ignored. CBRE's assessment resulted in indicative yield increases of 47-115 basis points since the end of 2021 across the various property sectors. The indicative market average capital value declined 0.1% in Q1 2023 compared to the previous quarter, lower than the drop during Q4.
- The market expects that CPI will be back within the 3% target ceiling by H2 2024, but uncertainty remains on how quickly inflation may fall in coming quarters.

The table below illustrates indicative market parameters:

Market sector	Yield range
Prime CBD	5.75% - 6.45%
Secondary CBD	6.00% - 6.75%
Prime Suburban	6.00% - 8.00%
Secondary Suburban	6.00% - 8.00%
Prime Industrial	5.25% - 6.50%
Secondary Industrial	6.00% - 7.50%
Fringe & Strip Retail	5.50% - 7.25%

Funding influence and bank support remain key, pushing the pendulum in favour of those with portfolio funding capacity. In the current environment, value-add, offering an ability to capture rent growth in parts of the market benefitting from higher occupier demand continues to be a key consideration. We expect sales volumes to increase through the rest of 2023 with more motivated sellers coming to the market driven by the need for greater liquidity as higher interest rates flow onto lower interest cover ratios and LVRs, and gearing covenants get impacted by revised valuations.

Even more prevalent than last year, the cap rate to debt cost margin offered by different property sectors continues to have a material effect on yield fluctuations. Yields have been adversely impacted by the significant reductions of these margins in the lowest yielding Prime office and industrial sectors despite strong occupier and rent growth profiles. In our assessment, Prime CBD office market yields were up by 54 basis points between Q3 2022 and Q1 2023 to an indicative average of 6.20%, with Prime Suburban office up by 25 basis points to 7.98%. Also, during this same period, the industrial submarkets saw their yields softening, on average, by 45 basis points.

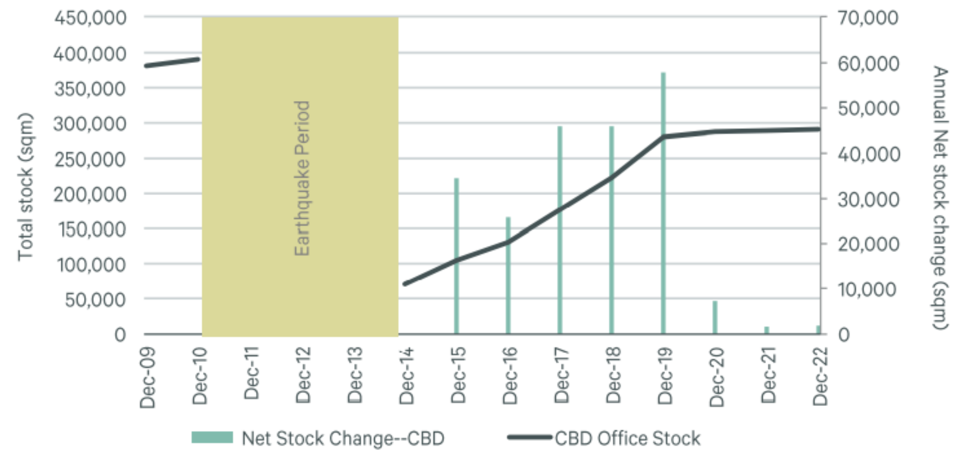
11.3 CBD OFFICE MARKET

CBD stock

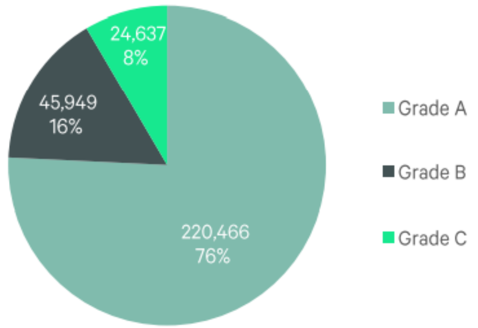
The Christchurch CBD office stock is 291,052 sqm, remaining unchanged during H2 2022. However, the stock increased by 1,850 sqm compared to H2 2021, mainly driven by an increment in Grade A stock and to a lesser degree by an increase in Grade B stock. In contrast, Grade C stock was unchanged during this period. 76% of the CBD office stock is Grade A, 16% Grade B, and the remaining 8% Grade C.

Two new CBD office buildings are due to be completed in 2023 (159 Hereford Street and 173 Gloucester Street), adding 3,410 sqm of new stock. Several other refurbishments and new build office projects are also in the pipeline. Refurbishment works are expected to increase office stock by circa 18,000 sqm, the largest being 224 Cashel Street (14,000 sqm). Moreover, five new buildings are also in the planning and marketing phases, adding circa 22,000 sqm of high-quality office stock around 2024.

Christchurch CBD Office Net Supply Changes



Christchurch CBD Office Quality Composition (H2 2022)



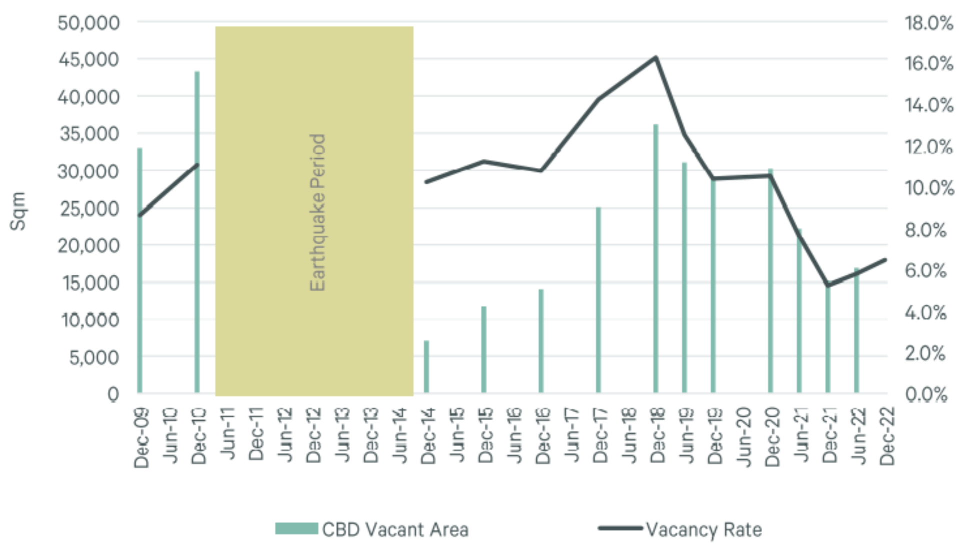
Vacancy

Following the trend of H1 2022, the Christchurch CBD office market registered an increase in vacancy during H2. The vacancy rate moved from 5.8% to 6.5%, a 1,925 sqm increase. This increment was mainly driven by an increase in the Prime vacancy rate from 5.0% to 5.9% mainly due to Vodafone's contraction and a financial services company vacating one floor (453 sqm) in 299 Durham Street. There were also small amounts of net absorption losses in 81-95 Cashel Street and 151 Cambridge Terrace. On the contrary, vacancy in Secondary office buildings in the CBD decreased in this period, falling from 9.4% to 9.0%, benefitting from positive absorption in Grade C.

CBD Office Vacancy by Grade

		Grade A	Grade B	Grade C	Total
Vacancy at June 2022	%	5.0%	6.1%	12.6%	5.8%
	sqm	10,948	2,821	3,100	16,869
Vacancy at December 2022	%	5.9%	6.1%	11.8%	6.5%
	sqm	13,076	2,821	2,897	18,794

CBD Office Vacancy



Market rents for CBD office did not show any changes during Q1 2023, following the trend of the previous quarter. Secondary net effective office rents increased by 2.2% in Q3 but Prime rents have been stable since mid year. Despite the market being less active, CBD office rents continue to be at record highs.

Incentives remained stable throughout Q1 2023. Based on CBRE's assessment, during Q1 2023 Prime indicative market incentives were 4.6% of face rents. Secondary indicative market incentives also remained stable during H2 at 9.0% of face rents.

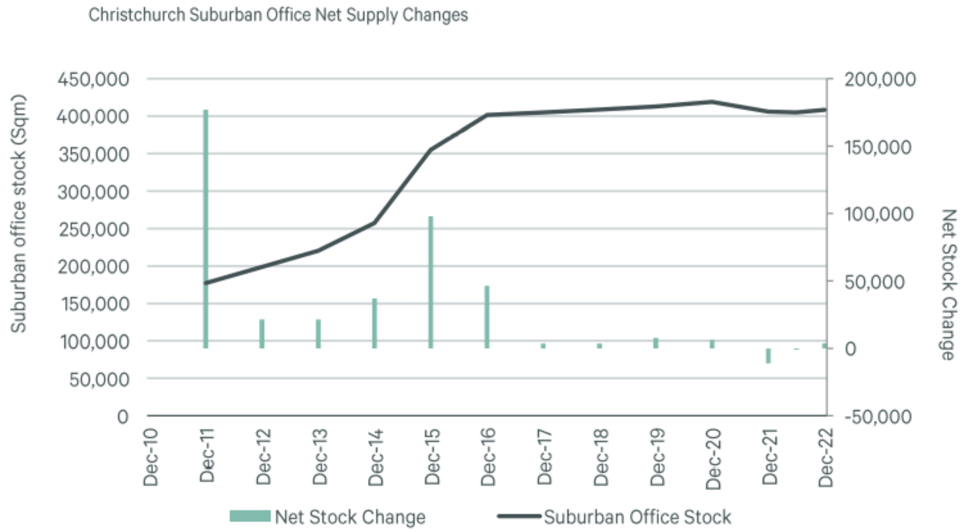
The graphic below depicts the trend in rental levels over recent years:

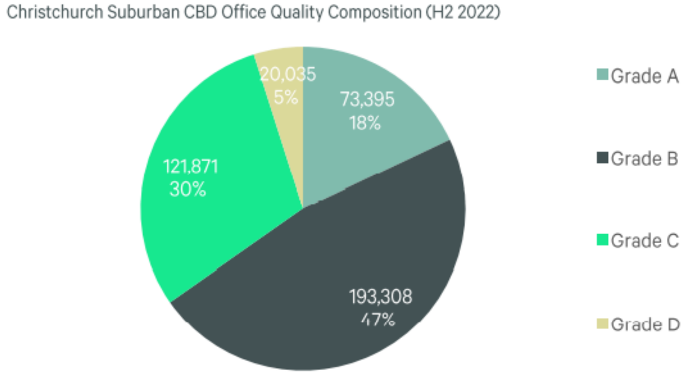
11.4 SUBURBAN OFFICE MARKET

Suburban stock

The Christchurch suburban office stock is 408,609 sqm, increasing by 3,655 sqm during H2 2022, mostly driven by an increase in Grade A. The most significant change during H2 2022 was 6 Hazeldean Road (in Hazeldean Business Park), a 5,939 sqm Grade A building, which came back into the market after undergoing strengthening works. In relation to stock removal, the most important change in this period was 116 Riccarton Road, a 1,400 sqm Grade C building temporarily taken out of stock due to refurbishment.

During H2 2022, 47% of the suburban office stock was Grade B, whilst 30% was Grade C, 18% was Grade A, and the remaining 5% was Grade D.





The Christchurch suburban office market was less active compared to the first half of last year. Net absorption during H2 2022 was 1,771 sqm, lower than in H1 2022, which experienced a net absorption of 11,117 sqm. Grade A suburban office buildings registered positive net absorption during H2 2022 (5,190 sqm). On the contrary, net absorption was negative in the Secondary suburban office market. During this period, negative net absorption of Grade B suburban office buildings was -2,222 sqm, followed by Grade D suburban office buildings (-758 sqm) and Grade C suburban office buildings (-440 sqm).

The industry that recorded the highest take up (gross absorption) of space during H2 2022 in the suburban office market was health care and social assistance, with a total of 6,376 sqm of new take up, followed by professional, scientific and technical services (4,302 sqm) and information, media and telecommunications (2,598 sqm).

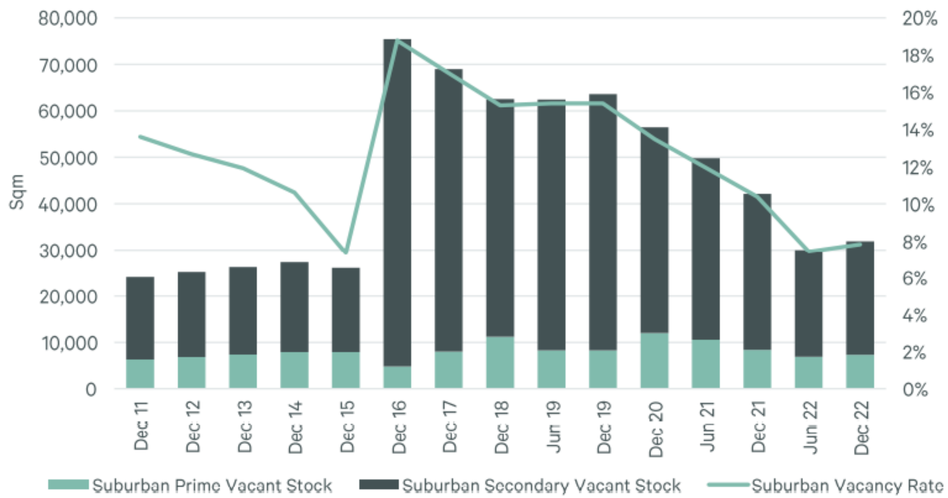
After experiencing a steady decline in vacancy since late 2019, the Christchurch suburban office market registered a slight increase during H2 2022. Total vacant space increased by 1,884 sqm, moving the vacancy rate from 7.4% to 7.8%. This was mainly due to an increment in vacant stock in the Secondary suburban office market, which caused an increase in the vacancy rate from 6.9% to 7.3% in this segment. Both Grade B and Grade D suburban office buildings registered an increase in vacancy, whilst Grade C experienced a decrease. Grade B vacant space increased by 2,222 sqm, mainly driven by a health care industry company leaving 1,283 sqm in 29 Sir William Pickering Drive in Burnside and by two companies leaving 1.062 sqm in number 49 of the same street. Also, Grade D vacant space increased by 758 sqm, mainly due to a company leaving 408 sqm in 9 Baigent Way.

The vacancy rate in Prime office buildings declined during this period, falling from 10.2% to 10.0%, despite the increase in vacant stock. The amount of stock of Grade A suburban office buildings increased during this period due to the reintroduction to the market of 6 Hazeldean Road.

Suburban Office Vacancy by Grade

		Grade A	Grade B	Grade C	Grade D	Total
Vacancy at June 2022	%	10.2%	5.4%	9.5%	4.4%	7.4%
	sqm	6,909	10,413	11,814	878	30,014
Vacancy at December 2022	%	10.0%	6.5%	8.5%	8.2%	7.8%
	sqm	7,318	12,635	10,309	1,636	31,898

Suburban Office Vacancy



Like the CBD office market, the Christchurch suburban office market did not experience any rent changes in Q1 2023 and Q4 2022. However, during Q3 both the Prime and Secondary submarkets experienced robust rental growth, up by 2.1% and 5.3%, respectively, compared to the previous quarter. In March 2023, Suburban Prime net effective office rents remained up by 5.1% compared to the end of the previous year, while Suburban Secondary net effective office rents were 5.3% higher compared to March 2022.

Incentives remained stable throughout Q1 2023. In CBRE's assessment, during this time period Prime indicative market incentives were 7.4% of face rents. Secondary market incentives were 12.3% of face rents.

The graphic below depicts the trend in rental levels over recent years:

12.0 MARKET RENT - 'AS IF COMPLETE'

12.1 MARKET RENT

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

> *The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*

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

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

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

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

12.2 RENTAL EVIDENCE

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

Pre-earthquake/heritage assets

Level 3, 152 Oxford Terrace, Christchurch Central

Tenant			Choir Limited
Date			7 November 2020
Type			New, net lease
Level 3 office	235.80	@	$360.47/m²$

Comprising a refurbished character building in a premium position. The building has been seismically strengthened to not less than 80% NBS.

Second floor, 176 Oxford Terrace, Christchurch Central

Tenant		FIK Christchurch Limited
Date		28 February 2021
Type		New, net lease
Office	225.00 @	$444.44/m^2

Comprising the second floor of a restored heritage building in a prominent position with a river outlook. The building has been seismically strengthened to not less than 100% NBS.

Ground floor, 152 Oxford Terrace, Christchurch Central

Tenant		Jeuneora Limited
Date		1 June 2021
Type		New, net lease
Ground floor office	467.00 @	$319.25/m^2

Comprising part of the ground floor of the recently restored Public Trust Building. The tenancy offers predominantly open plan accommodation with an area of mezzanine office. The lease provides for a rent free period, followed by a reduced rental; the net effective rent has been analysed. The building has been seismically strengthened to not less than 80% NBS.

First floor, 200 Armagh Street, Christchurch Central

Tenant		Great Scott Public Relations
Date		30 June 2021
Type		New, net lease
Office	162.00 @	$339.51/m^2

Comprising a first floor tenancy in a 1930s building that is to undergo refurbishment. The tenancy is to be provided with a boardroom, floor coverings and HVAC. Please note that the date quoted is the agreement date, with commencement to be on completion of the works. The building has been seismically strengthened to not less than 100% NBS.

First floor, 176 Oxford Terrace, Christchurch Central

Tenant			Brooksfield Management Limited
Date			1 July 2021
Type			New, net lease
Office	225.00	@	$365.00/m^2

Comprising the first floor of a restored heritage building in a prominent position with a river outlook. The building has been seismically strengthened to not less than 100% NBS.

Ground floor, 173 St Asaph Street, Christchurch Central

Tenant			Isthmus Group Limited
Date			1 March 2022
Type			New, net lease
Ground floor office	160.90	@	$365.00/m^2

Comprising ground floor office accommodation forming part of a mixed-use redevelopment of a 1940s industrial building. The date outlined refers to the agreement date. The building has been seismically strengthened to not less than 100% NBS.

112-114 Peterborough Street, Christchurch Central

Tenant			Raymond Donnelly & Co
Date			30 November 2022
Type			Rent Review
Office & amenites	666.70	@	$260.00/m^2
Carparks	16.00	@	$35.00/week

Comprising a three level office building, a courtyard and associated secure carparking. The building originally dates from the late 1980's, although was significantly refurbished, renovated, improved and strengthened to 100% New Building Standards in 2015. We note the tenant has provided heat pumps, internal partitioning and kitchen joinery and appliances which has been excluded from the assessed rent.

290 - 292 Montreal Street, Christchurch Central

Tenant			Resource Management Group Limited
Date			1 December 2022
Type			New Lease
Offices	189.71	@	$350.34/m^2
Deck	31.29	@	$100.00/m^2
Carparks	3.00	@	$50.00/week

New lease of refurbished historic buildings previously utilised as a café. The building has been seismically strengthened to not less than 67% NBS.

290 - 292 Montreal Street, Christchurch Central

Tenant			Marshall Day Acoustics Limited
Date			1 December 2022
Type			New Lease
Offices	193.23	@	$325.29/m^2
Deck	41.37	@	$100.00/m^2
Carparks	4.00	@	$50.00/week

New lease of refurbished historic buildings previously utilised as a café. The building has been seismically strengthened to not less than 67% NBS.

214 Cashel Street, Christchurch Central

Tenant			Worley New Zealand Limited
Date			14 February 2023
Type			New, net lease
First floor office	314.20	@	$407.97/m^2

A first floor office tenancy forming part of a two level retail and office building, dating from the 1990s, albeit, a late 1880s façade has been retained, this being a heritage feature. The tenancy provides a fully fitted space. The lease provides for a stepped rental increase with the net effective rent analysed. The building has been seismically strengthened to not less than 67% NBS.

61 Cambridge Terrace, Christchurch Central

Tenant			Nelco
Date			1 May 2023
Type			Review of a net lease
Office	107.80	@	$300.00/m^2
Carparks	2.00	@	$60.00/week

Comprising part of level 1 of a 1970s four level office building. The tenant owns the carpet, partitions, lighting and the kitchen. The building has been seismically strengthened to not less than 67% NBS.

144-146 Lichfield Street, Christchurch Central

Tenant			The Loft Christchurch Limited
Date			8 June 2023
Type			Review of a net lease
Office	526.90	@	$325.00/m^2

Comprising first floor office accommodation in an early 1900s building that was refurbished in 2009 and 2015. The building has been seismically strengthened to not less than 100% NBS. The tenancy is well-appointed and provides largely open plan accommodation.

Post-earthquake completed/modern structures

112 Cashel Street, Christchurch Central

Tenant			Mainland Capital Limited
Date			1 July 2022
Type			New lease
Offices	407.35	@	$393.73/m²

Lease of top floor including original apartment in a post-earthquake completed building. Rent excludes balcony.

60 Cashel Street, Christchurch Central

Tenant			Parry Field Lawyers
Date			1 November 2022
Type			New, net lease
First Floor Office	402.60	@	$352.90/m²

A first floor office tenancy forming part of the PWC Centre, a post-earthquake completed, five level office building

83 Victoria Street, Christchurch Central

Tenant			First Mortgage Trust
Date			1 November 2022
Type			New, net lease
Office	144.00	@	$376.09/m²
Tandem Carparks	2.00	@	$55.00/week

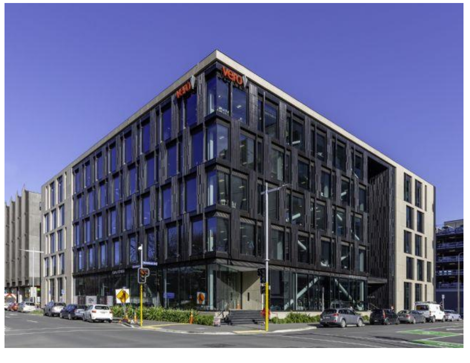
A part first floor office tenancy forming part of a 2013 built six level office building with ground floor hospitality.

83 Victoria Street, Christchurch Central

Tenant			My Quote Limited
Date			1 November 2022
Type			New, net lease
First Floor Office	313.00	@	$340.00/m²
Basement Carparks	2.00	@	$55.00/week

A first floor office building forming part of a 2013 built six level office building with ground floor hospitality.

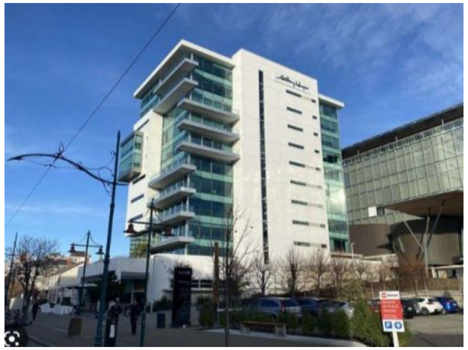
48 Hereford Street, Christchurch Central



Tenant			Unconfirmed
Date			1 December 2022
Type			Assignment of a net lease
Office	429.70	@	$389.97/m²

Comprising level 4 of a post-earthquake completed office building offering a high standard of accommodation.

62 Worcester Street, Christchurch Central



Tenant			Cambridge Partners
Date			1 February 2023
Type			New, net lease
Office	584.10	@	$357.42/m²
Balcony	33.00	@	$120.00/m²
Carparks - Secure	4.00	@	$75.00/week
Carparks - Tandem Secure	4.00	@	$60.00/week

A level four office tenancy with a balcony forming part of an 11-level office building that was constructed in the late 2000s and provides ground floor hospitality. The building achieves not less than 83% NBS.

135 Cashel Street, Christchurch Central

Tenant			Chubb
Date			1 February 2023
Type			Rent review
Offices	303.12	@	$395.00/m²
Carparks	5.00	@	$90.00/week

First floor office tenancy in the post-earthquake completed ANZ Centre overlooking the ground floor retail / entry foyer with basement carparks.

173 Gloucester Street, Christchurch Central

Tenant			Crew Consulting Limited
Date			1 April 2023
Type			New, net lease
Ground Floor Office	290.00	@	$428.48/m²
Carparks	8.00	@	$60.00/week

A ground floor office tenancy forming part of a two level retail and office building currently under construction. The landlord provided fitout.

134 Victoria Street, Christchurch Central

Tenant			SBS
Date			1 May 2023
Type			New, net lease
First Floor Office	287.00	@	$350.00/m²
Carparks	5.00	@	$55.00/week

A first floor office tenancy, known as 'Suite 4', forming part of a 2013 built three level office building.

51 Chester Street West, Christchurch Central

Tenant			The New Zealand Guardian Trust Company
Date			1 June 2023
Type			Renewal of a net lease
Ground floor office	416.30	@	$369.97/m²
Carparks	3.00	@	$60.00/week

A renewal of a ground floor office tenancy forming part of a three level retail and office building constructed in 2015. The building is situated on a corner site at the intersection of Durham Street North and Chester Street West.

134 Victoria Street, Christchurch Central

Tenant			Mikko Shoes
Date			1 August 2023
Type			New, net lease
Ground Floor Office/Retail	286.00	@	$333.47/m²
Carparks	4.00	@	$55.00/week

A ground floor office/retail tenancy forming part of a 2013 built three level office building. Fitout was limited and excluded partitioning, kitchen amenities, ceiling and floor linings. Two months early access was provided from 1 June 2023 and a four month rent free period with the effective rent analysed.

12.3 MARKET RENT SUMMARY AND CONCLUSION

The key market attributes that apply to the subject property are detailed as follows:

- Office rents have increased over the last 12 – 24 months following strong demand and limited supply, and we envisage rents to increase further over the short to medium term due to the lack of supply of such spaces in the CBD.
- Limited supply of larger floor plate office accommodation available within the CBD.
- Well-regarded position to the western fringe of the CBD.
- The heritage nature of the building would likely appeal to tenants, as evidenced by a number of leasings in recent years.
- The lack of onsite parking may prove somewhat of a deterrent to some occupants.

We understand the existing configuration of Harley Chambers provides for a number of office suites, however, this is typically not a favoured attribute in the current market-tenants tend to favour more open plan spaces and from a landlord's point of view, an open space provides a more flexible setting for future occupants. Further, multiple small suite tenancies are not favoured by a landlord due to the increased management burden. In this instance, we have assumed open plan tenancies will be provided at each level.

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.

In terms of refurbished/repurposed buildings versus new buildings, as can be seen from the outlined leasing transactions, rental levels are generally similar, with market feedback being that tenants appreciate the heritage offered by many of the buildings and prefer a 'point of difference' in many instances. It appears that rental levels do not vary significantly for buildings achieving 67% NBS versus 100% NBS. Similar applies to buildings where a heritage façade is retained and a new structure completed at the rear, as evidenced by the leasing at 214 Cashel Steet.

A number of heritage buildings have been refurbished in the CBD in recent years with notable examples, and rental levels achieved, summarised below:

- The 'Public Trust Building' at 152 Oxford Terrace, where tenancies have leased for between $325.00/m² and $400.00/m² for conventional spaces. Some smaller suites are provided, with rental levels in excess of those quoted reflecting scale.
- The 'Midland Club' at 176 Oxford Terrace, where tenancies have leased for between $365.00/m² and $445.00/m² for the upper levels.
- The 'MED Building' at 210 Armagh Street, where tenancies have leased for between $345.00/m² and $370.00/m².
- 144-146 Lichfield Street, with the first floor analysing to $325.00/m².
- The leasing at 214 Cashel Street, analysing to $407.97/m² refers to the former 'Farmers' building to the eastern fringe of the CBD. In this instance, the heritage façade was retained and the interior refurbished some years ago. The tenancy leased with full fitout in place.

In terms of the evidence of modern/post-earthquake buildings, leasings typically analyse to rental rates of $350.00/m² and $430.00/m². Notable examples include:

- Cambridge Partners at 62 Worcester Street, analysing to $357.42/m² on the office. This is a level 5 tenancy in Anthony Harper Tower, a short distance west of the subject.
- Chubb at 135 Cashel Street, analysing to $395.00/m², refers to a first floor tenancy in the ANZ Building, in well-regarded position to the eastern fringe of the CBD.
- Crew Consulting Limited at 173 Gloucester Street, analysing to $428.48/m². This is a new low rise building to the eastern fringe of the CBD, in an inferior position. We note that the tenancy includes some landlord fitout.
- SBS at 134 Victoria Street, analysing to $350.00/m² refers to a post-earthquake building to the northern fringe of the CBD, in an inferior position.

For clarity, the above quoted rental rates refer to those adjusted for the effect of inducements to provide a common benchmark.

Following repair or redevelopment, we envisage the property would be met with good tenant demand, give the well-regarded position. In our opinion, rental levels of between \$375.00/m² and \$435.00/m² are appropriate for the upper levels of the subject building on the basis of essentially open plan accommodation or spaces with limited partitioning. For clarity, it may be possible to achieve higher rental rates for smaller tenancies/office suites, however, this will no doubt result in significant expense, increased management burden and increased investment risk from a landlords perspective as a result of short term leases, common area provision/maintenance and tenant churn. A higher rental rate is appropriate for the ground floor noting the quasi-retail accommodation.

Rental assessments for each scenario will be summarised under the relevant scenario valuation section of this report.

13.0 SALES EVIDENCE

13.1 INTRODUCTION

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

Initial yield The initial yield is the return on the current net income. It is calculated from a single period and is therefore implicit of inflation. It is calculated by dividing the net income by the sale price or value.

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

Equivalent yield The equivalent yield represents the return on market income but reflecting known value adjustments such as income shortfalls/surpluses, vacancy, leasing costs and other capital items that a market participant would recognise. It typically represents the relationship between passing and market income and is generally a 'weighted average' of the two.

Discount rate This is the rate of return used to convert a monetary sum, payable or receivable in the future, into a present value. This represents the total return (capital and income) to the investor over a specified investment horizon, adjusted for inflation.

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

13.2 INVESTMENT SALES

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

Office/CBD commercial assets

176 Oxford Terrace, Christchurch Central

Sale date	18 March 2021
Sale price	$6,900,000
Tenant	Miro, Crane Brothers, vacant
Initial yield	3.19%
Yield on market income	4.32%
Equivalent yield	4.34%
Discount rate	4.95%
Weighted avg. lease term	5.4 years
$/m² of rentable area	$9,805/m²

Comprising a circa 1934 built, three level commercial building, originally constructed as the 'Midland Club'. The building encompasses ground floor retail & hospitality, with offices to the upper levels. Restoration work, sympathetic to the original character of the building, was completed in 2017/2018. The property is adjacent to the Convention Centre. One floor was vacant at the time of sale.

88 Cashel Street, Christchurch Central

Sale date	1 September 2021
Sale price	$19,000,000
Tenant	AECOM, Ministry of Justice and 4
Initial yield	4.96%
Yield on market income	5.27%
Equivalent yield	5.29%
Discount rate	6.06%
Weighted avg. lease term	4.1 years
$/m² of rentable area	$8,429/m²

A three level mixed use retail and office building located adjacent to the Riverside market in the heart of the CBD. Four ground floor retail tenants with two leased well below market. Vendor underwrite for one retail space for a year at $65,000. Upper floors leased to Ministry of Justice with a new lease for the top floor by AECOM for 5 years with rent free period.

94 Disraeli Street, Addington

Sale date	16 June 2022
Sale price	$2,228,000
Tenant	SRN E3 Partners, Financial
Initial yield	6.82%
Yield on market income	6.28%
Equivalent yield	6.33%
Discount rate	6.90%
Weighted avg. lease term	2.3 years
$/m² of rentable area	$4,429/m²

Comprising a modern two level office building providing a high standard of accommodation. The property is in an industrial locality. The building achieves a seismic rating of 100% NBS the property was leased at the time of sale, with the rent above market level.

126-128 Montreal Street, Sydenham

Sale date	1 July 2022
Sale price	$4,850,000
Tenant	Colliers, Babbage, AP Design,
Initial yield	4.54%
Yield on market income	6.70%
Equivalent yield	6.58%
Discount rate	7.54%
Weighted avg. lease term	3.1 years
$/m² of rentable area	$4,377/m²

Comprising a 2014 completed two level office building to the southern fringe of the CBD. The offices provide good quality accommodation and associated is ample off-street parking. The property was 74% let at the time of sale, with the existing rents close to market level.

151 Cambridge Terrace, Christchurch Central

Sale date	1 March 2023
Sale price	$36,356,000
Tenant	Deloitte & Others
Initial yield	6.14%
Yield on market income	6.01%
Equivalent yield	5.99%
Discount rate	7.54%
Weighted avg. lease term	3.4 years
$/m² of rentable area	$6,719/m²

Sale includes adjoining car park on Gloucester Street. A medium rise modern office block with ground floor hospitality which has had mixed success. Some vacant office areas. Office rents in excess of market. Purchased by local investor after significant negotiations commencing late in 2022.

97 Fitzgerald Avenue, Christchurch Central

Sale date	20 April 2023
Sale price	$3,530,000
Tenant	Owner-occupier
Initial yield	N/A
Yield on market income	5.89%
Equivalent yield	5.62%
Discount rate	7.42%
Weighted avg. lease term	N/A
$/m² of rentable area	$4,856/m²

Comprising a post-earthquake constructed two level office building to the eastern fringe of the CBD. The building offers a very good standard of accommodation. Associated is a single-sided signage board. The property was purchased vacant by an owner-occupier.

75 Cambridge Terrace, Christchurch Central

Sale date	18 May 2023
Sale price	$1,675,000
Tenant	Lumino
Initial yield	6.20%
Yield on market income	6.30%
Equivalent yield	6.27%
Discount rate	7.76%
Weighted avg. lease term	2.9 years
$/m² of rentable area	$7,451/m²

A 1964 built two level medical premises that was upgraded in the 1990s. The building achieves a seismic rating of 41% NBS and sold subject to a lease, at auction. It was generally considered that the price reflected a high proportion of land value.

Other investment assets

909 Halswell Junction Road, Islington

Sale date	1 October 2022
Sale price	$5,500,000
Tenant	Cookes Bridon-Bekaert
Initial yield	5.25%
Yield on market income	4.95%
Equivalent yield	5.05%
Discount rate	6.71%
Weighted avg. lease term	10.0 years
$/m² of rentable area	$3,149/m²

Comprising a proposed industrial building incorporating conventional offices and an 8.0-metre stud warehouse with multiple access points. The improvements are to be on a corner site. The proposed development is to be leased for a long term by an international tenant with the lease providing for annual fixed growth.

19 Lodestar Avenue, Wigram

Sale date	5 October 2022
Sale price	$8,400,000
Tenant	Motion Asia Pacific NZ Limited
Initial yield	5.58%
Yield on market income	5.49%
Equivalent yield	5.45%
Discount rate	6.70%
Weighted avg. lease term	6.3 years
$/m² of rentable area	$2,463/m²

Comprising a 2021 built industrial building. Accommodation includes ground floor showroom and office, first floor offices and an open span warehouse inclusive of operations office with an adjoining canopy. The building incorporates a high proportion of office and showroom accommodation. The tenant is a subsidiary of an NYSE listed company. The property was leased at the time of sale, with the rent initially above market level, albeit the fixed growth mechanism is below our anticipation of market rental growth.

136 Ilam Road, Ilam

Sale date	14 October 2022
Sale price	$6,300,000
Tenant	Ainger Tomlin, Ristretto, others
Initial yield	5.42%
Yield on market income	5.89%
Equivalent yield	5.85%
Discount rate	7.05%
Weighted avg. lease term	4.8 years
$/m² of rentable area	$5,872/m²

Comprising a 2014 completed two level building providing four ground floor retail tenancies and two first floor office suites. A large carpark is at the rear. The property was fully let at the time of sale, with the rent slightly below market level.

9 High Street, Rangiora

Sale date	10 February 2023
Sale price	$13,280,000
Tenant	The Warehouse Limited
Initial yield	7.50%
Yield on market income	7.50%
Equivalent yield	7.26%
Discount rate	9.64%
Weighted avg. lease term	5.3 years
$/m² of rentable area	$1,931/m²

A substantial large format retail building constructed in 2000 and refurbished in 2015. The premises has been occupied by 'The Warehouse', a subsidiary of NZX listed company, 'The Warehouse Group', since it was built. A small component of the building is separately leased to 'River to Ranges'. The building achieves a seismic rating of 100% NBS. The property is subject to a part gross lease with the rent capped at 3% increases.

9 Establishment Drive, Hornby South

Sale date	21 March 2023
Sale price	$4,350,000
Tenant	Super Tyre Warehouse Limited
Initial yield	5.76%
Yield on market income	6.05%
Equivalent yield	5.90%
Discount rate	7.52%
Weighted avg. lease term	6.4 years
$/m² of rentable area	$2,755/m²

A 2019 built industrial building providing offices & amenities, canopy and a 7.5 metre stud workshop with multiple access points. The site has relatively low site coverage and with ample carparks. Sold subject to a lease with a well regarded national tenant.

2 Headquarters Place, Hornby South

Sale date	22 March 2023
Sale price	$12,600,000
Tenant	Penske
Initial yield	6.14%
Yield on market income	6.25%
Equivalent yield	6.11%
Discount rate	8.27%
Weighted avg. lease term	10.8 years
$/m² of rentable area	$3,156/m²

Comprising a 2018 completed industrial facility providing a parts distribution centre, display yard and heavy vehicle service centre. Associated are substantial areas of concrete yard and off-street parking. The tenant forms part of a NYSE listed entity. The property is subject to a long term lease providing annual rent increases throughout the term. The current rent is below market level.

3 Avenger Crescent, Wigram

Sale date	1 August 2023
Sale price	$2,630,000
Tenant	Argon Distributors, Signage
Initial yield	5.58%
Yield on market income	6.10%
Equivalent yield	6.03%
Discount rate	7.22%
Weighted avg. lease term	2.0 years
$/m² of rentable area	$2,954/m²

A 2015/2016 built industrial building that accommodates four separate tenancies. Accommodation includes offices and amenities over two levels and medium stud warehouse. The building achieves a seismic rating of 100% and sold with potential for income rental growth at market rent reviews.

61-63 Edgeware Road, Saint Albans

Sale date	25 August 2023
Sale price	$4,610,000
Tenant	FreshChoice
Initial yield	6.00%
Yield on market income	5.95%
Equivalent yield	5.97%
Discount rate	7.61%
Weighted avg. lease term	14.5 years
$/m² of rentable area	$4,405/m²

A 2012 constructed retail premises to the northern periphery of central Christchurch occupied by 'Fresh Choice' for a long term. The lease provides for fixed annual increases.

13.3 SALES SUMMARY

Address	Sale date	Sale price	Initial yield	Market yield	Equivalent yield	Discount rate	WALT	$/m² rentable area
Office/CBD commercial assets								
176 Oxford Terrace	18 March 2021	$6,900,000	3.19%	4.32%	4.34%	4.95%	5.4 years	$9,805/m²
88 Cashel Street	1 September 2021	$19,000,000	4.96%	5.27%	5.29%	6.06%	4.1 years	$8,429/m²
94 Disraeli Street	16 June 2022	$2,228,000	6.82%	6.28%	6.33%	6.90%	2.3 years	$4,429/m²
126-128 Montreal Street	1 July 2022	$4,850,000	4.54%	6.70%	6.58%	7.54%	3.1 years	$4,377/m²
151 Cambridge Terrace	1 March 2023	$36,356,000	6.14%	6.01%	5.99%	7.54%	3.4 years	$6,719/m²
97 Fitzgerald Avenue	20 April 2023	$3,530,000	N/A	5.89%	5.62%	7.42%	N/A	$4,856/m²
75 Cambridge Terrace	18 May 2023	$1,675,000	6.20%	6.30%	6.27%	7.76%	2.9 years	$7,451/m²
Other investment assets								
909 Halswell Junction Road	1 October 2022	$5,500,000	5.25%	4.95%	5.05%	6.71%	10.0 years	$3,149/m²
19 Lodestar Avenue	5 October 2022	$8,400,000	5.58%	5.49%	5.45%	6.70%	6.3 years	$2,463/m²
136 Ilam Road	14 October 2022	$6,300,000	5.42%	5.89%	5.85%	7.05%	4.8 years	$5,872/m²
9 High Street	10 February 2023	$13,280,000	7.50%	7.50%	7.26%	9.64%	5.3 years	$1,931/m²
9 Establishment Drive	21 March 2023	$4,350,000	5.76%	6.05%	5.90%	7.52%	6.4 years	$2,755/m²
2 Headquarters Place	22 March 2023	$12,600,000	6.14%	6.25%	6.11%	8.27%	10.8 years	$3,156/m²
3 Avenger Crescent	1 August 2023	$2,630,000	5.58%	6.10%	6.03%	7.22%	2.0 years	$2,954/m²
61-63 Edgeware Road	25 August 2023	$4,610,000	6.00%	5.95%	5.97%	7.61%	14.5 years	$4,405/m²
Ranges		***minimum***	**3.19%**	**4.32%**	**4.34%**	**4.95%**	**2.0 years**	**$1,931/m²**
		maximum	**7.50%**	**7.50%**	**7.26%**	**9.64%**	**14.5 years**	**$9,805/m²**

14.0 VALUATION - OPTION 1A: BUILDING REINSTATEMENT & STRENGTHENING (34% NBS)

14.1 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 to only a 34% NBS seismic rating.

To achieve 34% NBS, AECOM have concluded a construction cost of $19.380 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 $19.380 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 note Hazeldean Business Park. The part of the development at 6 Hazeldean Road had been assessed at less than 34% NBS. Part of the ground floor and part of level 4 were occupied on a concessionary rents, however, the upper levels largely remained vacant. From an investment point of view, when the development was offered for sale, a number of parties were interested, however, uncertainty and seismic strengthening costs proved a deterrent. The development did sell, but the price reflects a significant discount from that expected of a development achieving not less than 67% NBS, with the discount reflecting remediation costs, holding costs and an entrepreneurial return to the investor.

14.2 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.

To establish the value of the vacant, unencumbered land, we have considered the following land sales:

Address	Sale Date	Sale Price	Land Area (m²)	Analysis ($/m²)
9 Cathedral Square	Nov-2020	$8,100,000	1,319	$6,141
173 Gloucester Street	Apr-2021	$1,433,500	556	$2,578
105 Worcester Street	Aug-2021	$3,000,000	1,026	$2,924
146 High Street	Aug-2021	$4,300,000	1,403	$3,065
180 High Street	Oct-2021	$2,000,000	440	$4,545
93 Cashel Street	Oct-2021	$6,480,000	1,080	$6,000
120 Manchester Street & 211 High Street	Feb-2022	$4,000,000	728	$5,495
138 Lichfield Street	Apr-2022	$2,060,000	513	$4,016
146-150 High Street	Aug-2023	$4,500,000	1,403	$3,207

We comment on particular sales as follows:

- 9 Cathedral Square is a larger site in a high profile position with three frontages. This is a superior site to the subject.
- 120 Manchester Street & 211 High Street comprises a dual frontage site in a high profile position where significant development is occurring. It provides a useful guide.
- 93 Cashel Street refers to a high profile site in a strategic position adjacent to 'The Terrace' development and with access to lanes to such. It is considered a superior site.
- 146-150 High Street refers to a prominent site with dual frontages in an area subject to significant development. This is considered an inferior property and we note is much larger.
- The balance properties are considered inferior to the subject site and a higher land value rate is therefore appropriate.

We consider the underlying unencumbered land value lies within the range of $5,000 - $5,750/m², concluding at a rate towards the midpoint of **$5,250/m²**.

We have adopted the demolition allowance as noted in the AECOM report (excluding the façade retention), at $456,000, but adjusted for inflation as per the AECOM report to arrive at an estimate of $601,920 plus GST.

In terms of profit & risk, we note that acquisition of the site is met with not insignificant risk given there is no certainty of being able to achieve removal of the heritage classification to allow demolition & redevelopment. Further, there is likely not insignificant cost involved in achieving such. We have adopted a profit and risk allowance of **15.00%** and deferred the land value for a 15 month period at an opportunity cost discount rate of 6.00% which reflects the potential for value growth during the period.

Our calculation is as follows:

Market value								
Unencumbered Land Value (Bare Site)								
Land value	938 m²	@		$5,250 /m²		=	$4,924,500	
Adopted Land Value								**$4,925,000**
Less Adjustments								
▪ Demolition							($601,920)	
▪ Profit & Risk - Current Heritage Classification removal			@		15.00%	=	($642,391)	
▪ Land Value Deferral	@	6.00% pa	for		1.25 years	=	($345,966)	
Total adjustments								**($1,590,277)**
Value 'as is'								$3,334,723
							adopt	**$3,335,000**

As can be seen, we conclude the unencumbered land value at $4,925,000.

After deduction for demolition, profit and risk and land value deferral, the market value 'as is' equates $3,3355,000.

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.

15.0 VALUATION 'AS IF COMPLETE' - OPTION 1B: BUILDING REINSTATEMENT & STRENGTHENING (67% NBS)

15.1 VALUATION APPROACHES AND METHODS- 'AS IF COMPLETE'

To establish Market Value, as per International Valuation Standard 105, we have utilised the Income Approach to value. The Income Approach is predicated on the conversion of net actual or market income, which either is or could be generated by an owner of the interest, to value.

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

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

It is noted that at this juncture no tenants are secured and therefore there are both costs and risk associated with securing such. 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 Approach to follow under our economic feasibility analysis.

Our valuation methodology remains consistent for all scenarios to follow in Sections 15-18.

15.2 MARKET RENT – 'AS IF COMPLETE'

We have adopted a rental rate for the ground floor of $450.00/m^2 reflecting the quasi retail nature, with rental rates of $415.00/m^2 adopted for the upper levels. Noting the superior position of the property, we have adopted rental rates towards the upper end of this range. We establish the market rent as follows:

Market Rent Assessment							
Tenant	**Outgoings**	**Rentable Area (m^2)**	**Area Rate ($/m^2)**	**Premises Rent**	**Carpark Rent**	**Other Rent**	**Market Rent**
Ground floor	Net	560.0	$450.00	$252,000	$0	$0	$252,000
First floor	Net	615.0	$415.00	$255,225	$0	$0	$255,225
Second floor	Net	610.0	$415.00	$253,150	$0	$0	$253,150
Total market rent							**$760,375**

15.3 VALUATION – 'AS IF COMPLETE'

15.3.1 Rationale

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.
- On this basis, the property provides a unique proposition that would appeal to tenants and investors based on historic transactions- heritage structures are typically appreciated in the Christchurch market.
- A seismic rating of 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. Notwithstanding, no price discount appears to apply for an asset of this scale that achieves 67% NBS versus 100% NBS from our experience.
- We consider the market rental fully leased equates $760,375 pa plus GST and associated operating expense charges on the basis of largely open plan tenancies at each level.

- We envisage the weighted average lease term would be in the region of 6.0 years on a fully leased basis, commensurate with new leasings in the CBD.
- Affordable value quantum in the context of a CBD office asset and location.
- No onsite carparking a detraction to tenants therefore impacting end value.

In terms of the investment market, few sales of large scale assets (>$5m) have occurred in Christchurch over the last 18 months as a result of the availability and cost of debt. Yields have increased for large scale assets as a result of the increased cost of debt. It appears that purchasers of such assets are requiring higher returns to offset cash flow shortfalls as a result of rising borrowing costs and we are now of the opinion that a 'prime' yield would be in the region of 5.35%, much higher than the 4.50%-4.85% achieved in 2021. The smaller scale assets (<2.0m), do not appear to have been as negatively impacts, however.

On the basis of our valuation, the building is assumed to have been restored in a manner sympathetic to the heritage of the original design. Therefore, the property provides a unique proposition that would appeal to tenants and investors based on historic transactions. Further, it is in a prominent position.

In relation to the investment yield we have analysed a wide range of sales. Based on the sales evidence, and reflecting the key investment criteria of the subject property, we have concluded an appropriate return of **5.75%** on the market cashflow. Although the adopted yield is below those analysed from many of the recent outlined sales, the property is in a prominent position and the historic nature of the property would appeal to occupants and investors alike in our view, as has been suggested by previous transactions.

Our investment calculations are as follows:

Income Capitalisation				
Net market income			$760,375	
Net Market Income Capitalised	@	5.75%		
Market value- fully leased at market level				**$13,223,913**
Market value				$13,223,913
			adopt	**$13,225,000**

Sensitivity Analysis					Benchmark Analysis	
Equivalent Yield	@	5.50%	=	$13,825,000	Yield on Market Income	5.75%
	@	**Adopted**	=	**$13,225,000**	Initial Yield	0.00%
	@	6.00%	=	$12,675,000	Equivalent Yield	5.75%
					$/m^2 of Rentable Floor Area	$7,409

15.3.2 Reconciliation

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

VALUATION & ANALYSIS

Adopted value	$13,225,000
Initial yield	N/A
Yield on market income	5.75%
Equivalent yield	5.75%
Value psm of rentable area	$7,409

The above value is plus GST (if any).

16.0 VALUATION 'AS IF COMPLETE' - OPTION 1C: BUILDING REINSTATEMENT & STRENGTHENING (100% NBS)

16.1 VALUATION APPROACHES AND METHODS- 'AS IF COMPLETE'

Our valuation methodology is that discussed previously.

16.2 MARKET RENT – 'AS IF COMPLETE'

We believe a similar rent to that previously adopted should apply. We establish the market rent as follows:

Market Rent Assessment							
Tenant	Outgoings	Rentable Area (m²)	Area Rate ($/m²)	Premises Rent	Carpark Rent	Other Rent	Market Rent
Ground floor	Net	560.0	$450.00	$252,000	$0	$0	$252,000
First floor	Net	615.0	$415.00	$255,225	$0	$0	$255,225
Second floor	Net	610.0	$415.00	$253,150	$0	$0	$253,150
Total market rent							**$760,375**

16.3 VALUATION – 'AS IF COMPLETE'

16.3.1 Rationale

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

- 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.
- We envisage the weighted average lease term would be in the region of 6.0 years on a fully leased basis, commensurate with new leasings in the CBD.

In our experience, there is no clear evidence to suggest a yield differential from that previously adopted for an asset of this scale and nature. However, pragmatically, it is considered a superior long term proposition and therefore we have adopted a slightly lower yield of **5.65%**. Our investment calculations are as follows:

Income Capitalisation				
Net market income			$760,375	
Net Market Income Capitalised	@	5.65%		
Market value- fully leased at market level				**$13,457,965**
Market value				$13,457,965
			adopt	**$13,460,000**

Sensitivity Analysis				
Equivalent Yield	@	5.40%	=	$14,080,000
	@	**Adopted**	=	**$13,460,000**
	@	5.90%	=	$12,890,000

Benchmark Analysis	
Yield on Market Income	5.65%
Initial Yield	0.00%
Equivalent Yield	5.65%
$/m² of Rentable Floor Area	$7,541

16.3.2 Reconciliation

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

VALUATION & ANALYSIS

Adopted value	**$13,460,000**
Initial yield	N/A
Yield on market income	5.65%
Equivalent yield	5.65%
Value psm of rentable area	$7,541

The above value is plus GST (if any).

17.0 VALUATION 'AS IF COMPLETE' - OPTION 2A: RETAINED HISTORIC FAÇADE WITH NEW OPEN PLAN OFFICE BUILDING

17.1 VALUATION APPROACHES AND METHODS- 'AS IF COMPLETE'

Our valuation methodology is that discussed previously.

17.2 MARKET RENT – 'AS IF COMPLETE'

It is possible a new building may result in a slightly more efficient layout from a rentable area perspective, however, retention of the façade is likely the biggest impact on efficiency. As such, we believe slightly higher rental rates to those previously should apply. We establish the market rent as follows:

Market Rent Assessment							
Tenant	Outgoings	Rentable Area (m^2)	Area Rate ($/$m^2$)	Premises Rent	Carpark Rent	Other Rent	Market Rent
Ground floor	Net	560.0	$465.00	$260,400	$0	$0	$260,400
First floor	Net	615.0	$425.00	$261,375	$0	$0	$261,375
Second floor	Net	610.0	$425.00	$259,250	$0	$0	$259,250
Total market rent							**$781,025**

17.3 VALUATION – 'AS IF COMPLETE'

17.3.1 Rationale

The key investment considerations for the new three level building with heritage façade are noted as follows:

- An appealing low-rise character building of new build finish quality.
- Highly desirable CBD position.
- Assumed part heritage classification applies to facade.
- 100% NBS equivalent assumed as same required for consenting and end Code Compliance certification.
- We envisage a tenancy profile incorporating two ground floor tenants and two upper level office tenants of reasonable covenant.
- Likely weighted average lease terms of circa 6.0 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.

The resulting building will retain the heritage exterior, however, will provide a more efficient building with reduced capital expenditure requirements in the medium term. We have adopted a slightly lower yield to that previously adopted, at **5.65%**. Our investment calculations are as follows:

Income Capitalisation			
Net market income		$781,025	
Net Market Income Capitalised	@	5.65%	
Market value- fully leased at market level			**$13,823,451**
Market value			$13,823,451
		adopt	**$13,825,000**

Sensitivity Analysis				
Equivalent Yield	@	5.40%	=	$14,465,000
	@	**Adopted**	=	**$13,825,000**
	@	5.90%	=	$13,240,000

Benchmark Analysis	
Yield on Market Income	5.65%
Initial Yield	0.00%
Equivalent Yield	5.65%
$/$m^2$ of Rentable Floor Area	$7,745

17.3.2 Reconciliation

The market value 'as if complete' and fully let at market level on this basis is as follows:

VALUATION & ANALYSIS

Adopted value	**$13,825,000**
Initial yield	N/A
Yield on market income	5.65%
Equivalent yield	5.65%
Value psm of rentable area	$7,745

The above value is plus GST (if any).

18.0 VALUATION ‘AS IF COMPLETE’- OPTION 2B: NEW OPEN PLAN OFFICE (100% NBS)

18.1 VALUATION APPROACHES AND METHODS- ‘AS IF COMPLETE’

Our valuation methodology is that discussed previously.

18.2 MARKET RENT – ‘AS IF COMPLETE’

Given this will be a more efficient option, both in terms of floor space and likely operating costs, slightly higher rental rates to those previously adopted have been adopted in this instance. We establish the market rent as follows:

Market Rent Assessment							
Tenant	Outgoings	Rentable Area (m^2)	Area Rate ($/$m^2$)	Premises Rent	Carpark Rent	Other Rent	Market Rent
Ground floor	Net	650.0	$475.00	$308,750	$0	$0	$308,750
First floor	Net	675.0	$435.00	$293,625	$0	$0	$293,625
Second floor	Net	675.0	$435.00	$293,625	$0	$0	$293,625
Total market rent							**$896,000**

18.3 VALUATION – ‘AS IF COMPLETE’

18.3.1 Rationale

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

- An appealing new build low-rise contemporary office building.
- Desirable CBD position.
- No heritage classification applies.
- 100% NBS equivalent assumed as same required for consenting and end Code Compliance certification.
- We envisage a tenancy profile incorporating two ground floor tenants and two upper level office tenants of reasonable covenant.
- Likely weighted average lease terms of circa 6.0 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.

Based on the sales evidence, and reflecting the key investment criteria of the subject property, we have concluded an appropriate return of **5.65%** on the market cashflow. Our investment calculations are as follows:

Income Capitalisation				
Net market income			$896,000	
Net Market Income Capitalised	@	5.65%		
Market value- fully leased at market level				**$15,858,407**
Market value				$15,858,407
			adopt	**$15,860,000**

Sensitivity Analysis				
Equivalent Yield	@	5.40%	=	$16,595,000
	@	**Adopted**	=	**$15,860,000**
	@	5.90%	=	$15,185,000

Benchmark Analysis	
Yield on Market Income	5.65%
Initial Yield	0.00%
Equivalent Yield	5.65%
$/$m^2$ of Rentable Floor Area	$7,930

18.3.2 Reconciliation

The market value ‘as if complete’ and fully let at market level on this basis is stated as follows:

VALUATION & ANALYSIS

Adopted value	**$15,860,000**
Initial yield	N/A
Yield on market income	5.65%
Equivalent yield	5.65%
Value psm of rentable area	$7,930

The above value is plus GST (if any).

18.3.3 Summary of values

Option 1A: Building Reinstatement & Strengthening (34% NBS) is not a realistic scenario to undertake given the leasing and investment market would not accept a building of this nature at 34% NBS. As such, we have adopted a valuation scenario whereby a developer would seek to remove the heritage listing. We have established a value of **$3,335,000** via this method.

Prior to contemplating the economic feasibility of each scenario previously detailed, for ease of reporting fluidity, we briefly summarise our valuation conclusions 'as if complete' as follows:

Scenario	'As if complete' value
Option 1B: Building Reinstatement & Strengthening (67% NBS)	$13,225,000
Option 1C: Building Reinstatement & Strengthening (100% NBS)	$13,460,000
Option 2A: Retained Historic Façade with New Open Plan Office Building Connected (100% NBS)	$13,825,000
Option 2B: New Open Plan Office (100% NBS)	$15,860,000

19.0 VALUATIONS - 'AS IS' BASED ON REINSTATEMENT SCENARIOS

19.1 INTRODUCTION

We have previously concluded the market value 'as if complete' 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.

19.2 RATIONALE

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.

19.3 VALUATIONS

19.3.1 Overview

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

- We commence with the 'as if complete' value as a starting point.
- 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. It reflects an entrepreneurial return to the developer, but also provides a 'hedge' for unexpected costs.
- All scenarios considered herein are significant both in terms of value scale and construction risk (particularly the repair, strengthening and façade retention scenario's).

  On balance, we have adopted a profit and risk allowance to the repair, strengthening and façade retention scenarios of 15.00%. We have adopted a profit and risk allowance to the three level replica and three level modern replacement scenarios of 10.00% for the reason lesser construction or retention risk applies. We note that expected margins from development projects have reduced significantly over the past 12 months.
- 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 (albeit calculated over half of the period given not all costs are incurred at the same time) and further, operating expenses that would be incurred over the same period. We have adopted a redevelopment programme within the time span of 15 - 18 months, scenario dependent.
- Option 2B is a variation on the other options given it reflects consent having been obtained to remove the heritage improvements. This is more so of a hypothetical scenario than the other methods as it does not reflect any direct or indirect costs of removing the heritage classification to enable demolition of the improvements. Obviously, significant additional costs would apply in this scenario, which are not reflected in the valuation method.

19.3.2 Valuation conclusions

Option 1B: Building Reinstatement & Strengthening (67% NBS)

Our residual development valuation is as follows:

Residual Method						
Market Value- As Proposed						**$13,225,000**
less Profit & Risk on Outlay		@	15.00%	of outlay		$1,725,000
Outlay						**$11,500,000**
Less Costs						
▪ Construction cost estimate (AECOM)					$25,400,000	
▪ Leasing costs- agents		@	17.00%	=	$138,763	
▪ Leasing costs- legal					$25,000	
▪ Unrecovered OPEX during vacancy (let-up period only)					$60,000	
▪ Interest on outlay (calculation based on half period)	15 months	@	8.25%	=	$592,969	
Total Costs						**$26,216,731**
Market Value 'As is'						($14,716,731)
						($14,715,000)

The above analysis results in a negative value outcome. Alternatively put, the costs of achieving the end proposal significantly outweigh the end value that can be achieved.

The repair and strengthening proposal is therefore considered uneconomic.

Option 1C: Building Reinstatement & Strengthening (100% NBS)

Our residual development valuation is as follows:

Residual Method						
Market Value- As Proposed						**$13,460,000**
less Profit & Risk on Outlay		@	15.00%	of outlay		$1,755,652
Outlay						**$11,704,348**
Less Costs						
▪ Construction cost estimate (AECOM)					$27,830,000	
▪ Leasing costs- agents		@	17.00%	=	$138,763	
▪ Leasing costs- legal					$25,000	
▪ Unrecovered OPEX during vacancy (let-up period only)					$60,000	
▪ Interest on outlay (calculation based on half period)	15 months	@	8.25%	=	$603,505	
Total Costs						**$28,657,268**
Market Value 'As is'						($16,952,920)
						($16,955,000)

The above analysis results in a negative value outcome. Alternatively put, the costs of achieving the end proposal significantly outweigh the end value that can be achieved.

The repair and strengthening proposal is therefore considered uneconomic.

Option 2A: Retained Historic Façade with New Open Plan Office Building Connected (100% NBS)

Our residual development valuation is as follows:

Residual Method				
Market Value- As Proposed				**$13,825,000**
less Profit & Risk on Outlay		@ 15.00% of outlay		$1,803,261
Outlay				**$12,021,739**
Less Costs				
▪ Construction cost estimate (AECOM)			$20,850,000	
▪ Leasing costs- agents		@ 17.00% =	$138,763	
▪ Leasing costs- legal			$25,000	
▪ Unrecovered OPEX during vacancy (let-up period only)			$60,000	
▪ Interest on outlay (calculation based on half period)	18 months	@ 8.25% =	$743,845	
Total Costs				**$21,817,608**
Market Value 'As is'				($9,795,868)
				($9,795,000)

The above analysis results in a negative value outcome. Alternatively put, the costs of achieving the end proposal significantly outweigh the end value that can be achieved.

The repair and strengthening proposal is therefore considered uneconomic.

Option 2B: New Open Plan Office (100% NBS)

Our residual development valuation is as follows:

Residual Method				
Market Value- As Proposed				**$15,860,000**
less Profit & Risk on Outlay		@ 10.00% of outlay		$1,441,818
Outlay				**$14,418,182**
Less Costs				
▪ Construction cost estimate (AECOM)			$13,630,000	
▪ Leasing costs- agents		@ 17.00% =	$152,320	
▪ Leasing costs- legal			$25,000	
▪ Unrecovered OPEX during vacancy (let-up period only)			$60,000	
▪ Interest on outlay (calculation based on half period)	18 months	@ 8.25% =	$892,125	
Total Costs				**$14,759,445**
Market Value 'As is'				($341,263)
				($340,000)

The above model represents the amount a developer could pay for the land assuming there is no additional cost to remove the heritage classification, which is clearly a significant expense. Should costs to remove the heritage classification be considered, in the calculation, the resultant value will undoubtedly be a material negative outcome from a feasibility perspective. Further, the scenario does not reflect additional demolition costs likely to be incurred such as removal of the basement, backfilling the site and contamination removal.

The above analysis results in, essentially, a minor negative outcome financially and, as a result, there no benefit in completing the assignment (excluding land acquisition), albeit there is a development profit included in the calculation.

The proposal is therefore considered uneconomic.

19.3.3 Summary

The resultant residual values are summarised below:

Scenario	Residual value
Option 1A: Building Reinstatement & Strengthening (34% NBS) (land value less costs	$3,335,000
Option 1B: Building Reinstatement & Strengthening (67% NBS)	($14,715,000)
Option 1C: Building Reinstatement & Strengthening (100% NBS)	($16,955,000)
Option 2A: Retained Historic Façade with New Open Plan Office Building Connected (100% NBS)	($9,795,000)
Option 2B: New Open Plan Office (100% NBS)	($340,000)

Option 1A: Building Reinstatement & Strengthening (34% NBS) is not a realistic scenario to undertake given the leasing and investment market would not accept a building of this nature at 34% NBS. As such, we have adopted a valuation scenario whereby a developer would seek to remove the heritage listing.

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 existing 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. A significant loss would be incurred by any person undertaking the repair and strengthening programme.

The above comments hold true for the façade retention scenario save for the disconnect between cost and end value being lessened although still material. Again, retaining a façade is 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, it has not been uncommon historically in the Christchurch market for a residual calculation to result in such an outcome. Notably, many Christchurch developers have taken a long term, and optimistic view, with development, accepting a small value impairment (or loss of value) relative to the completed development value (value 'as if complete') where the development profit offsets the impairment. However, in the case of the subject property, the impairment is significant, resulting in impairment essentially equivalent to the 'as if complete' value. Furthermore, I note that even under the scenario demonstrating the lowest impairment margin (i.e. Option 2A), the 'loss' is essentially double our opinion of land value as a vacant unencumbered site and it is significantly greater than the development profit demonstrated from that scenario. Based on the costs to complete the various reinstatement and replacement options in this instance, and the scale of impairment, in my opinion no prudent and informed party would undertake the works.

As previously outlined, option 2B is a variation on the other options given it reflects consent having been obtained to remove the heritage improvements. This is more so of a hypothetical scenario than the other methods as it does not reflect any direct or indirect costs of removing the heritage classification to enable demolition of the improvements. Obviously, significant additional costs would apply in this scenario, which are not reflected in the valuation method. The resultant value suggests the land is worthless assuming there is no heritage classification. If costs to remove the heritage classification are factored, the resultant value would be a substantial negative value.

20.0 STATEMENT OF LIMITING CONDITIONS AND VALUATION POLICY

Purpose

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

Responsibility to third party

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

Reproduction of report

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

Date of valuation

Unless otherwise stated, the effective date of the valuation is the date of the inspection of the property. This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value.

Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 3 months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

Legislation

We have not obtained a Land Information Memorandum (LIM) or Property Information Memorandum (PIM) for this property which, unless otherwise stated, is assumed to conform to all requirements of the Resource Management Act 1991, the New Zealand Building Code contained in the First Schedule to the Building Regulations 1992, the Building Act 2004 and any Historic Places Trust registration. Our valuation reports are prepared on the basis that properties comply with all relevant legislation and regulations and that there is no adverse or beneficial information recorded on the Territorial Local Authority (TLA) property file, unless otherwise stated. Legislation that may be of importance in this regard includes the Health & Safety at Work Act 2015, the Fire Safety and Evacuation of Buildings Regulation 1992, and the Disabled Persons Community Welfare Act 1975.

Registrations

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

Reliability of data

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

Assumptions

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

GST

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

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

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

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

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

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

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

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

Valuer's statement
This report has been undertaken by Hayden Doody who has inspected the property externally and internally. The Registered Valuer holds an Annual Practicing Certificate.

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

Yours faithfully

CBRE Limited t/a TelferYoung from CBRE

Hayden Doody - B Com (VPM), SPINZ, ANZIV, MRICS
Registered Valuer & Chartered Surveyor
Director

Email: hayden.doody@telferyoung.com

APPENDIX

APPENDIX A RECORD OF TITLE

RECORD OF TITLE
UNDER LAND TRANSFER ACT 2017
FREEHOLD
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
Registered Owners
Cambridge 137 Limited

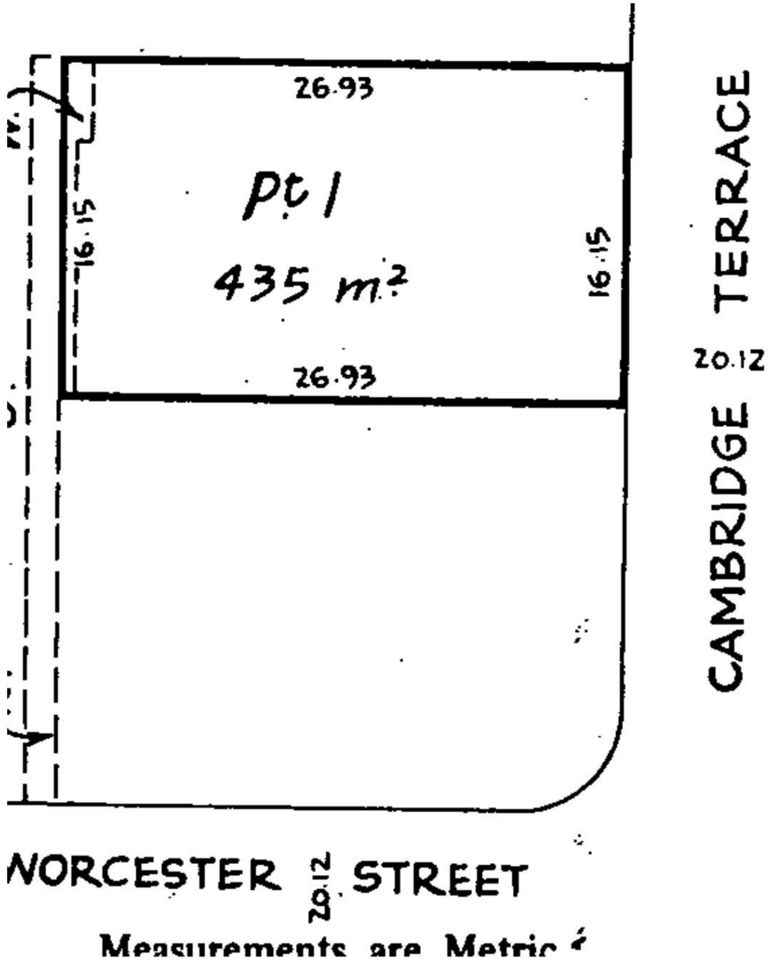
Interests

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	

Land Covenant in Covenant Instrument 12792011.1 - 2.8.2023 at 12:35 pm

Identifier **CB18K/448**



RECORD OF TITLE
UNDER LAND TRANSFER ACT 2017
FREEHOLD
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

Registered Owners
Cambridge 137 Limited

Interests

205608 Transfer creating the following easements

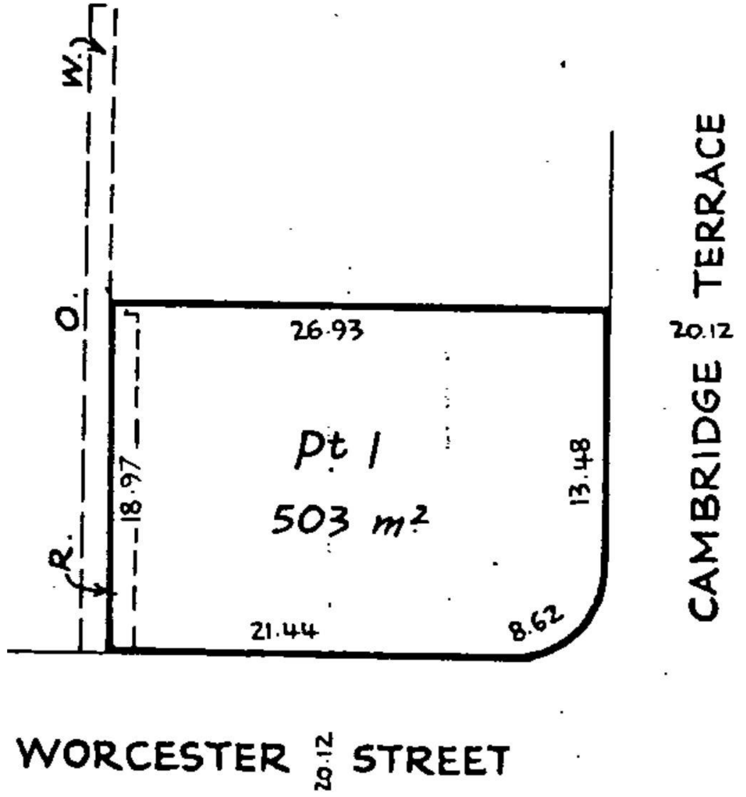
Type	Servient Tenement	Easement Area	Dominant Tenement	Statutory Restriction
Right of way	Part Lot 1 Deposited Plan 6773 - herein	Red Transfer 205608	Lot 2 Deposited Plan 6773 - CT CB415/82	
Right of way	Lot 2 Deposited Plan 6773	Brown (yellow) Transfer 205608	Part Lot 1 Deposited Plan 6773 - herein	

Land Covenant in Covenant Instrument 12792011.1 - 2.8.2023 at 12:35 pm

Transaction ID 1567441
Client Reference COM

Search Copy Dated 28/08/23 2:16 pm, Page 1 of 2
Register Only

Identifier **CB18K/449**



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Client Reference COM

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