

JUNEE SHIRE INDUSTRIAL AREA

Feasibility Assessment



Prepared for Junee Shire Council



Regional NSW - Economic Activation Programs

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1.0 INTRODUCTION

Junee Shire has a current population of almost 6,500, which is expected to increase by a further 1,200 by 2040. In its Local Strategic Planning Statement Council identified a need for more serviced industrial land to provide jobs and services for the growing population. Junee has no available industrial zoned sites for future businesses.

Council had considered several location options for an industrial precinct and settled on the area immediately to the north of Junee township on the western side of Old Junee Road as identified in the LSPS.

HillPDA was engaged by Council under supervision of NDP Economic Development to assess the feasibility of an industrial precinct in this area. This report summarises the findings of that assessment.

This report is structured in the following chapters:

- Chapter 1: Introduction
- Chapter 2: Market appraisal: considers the market appetite for serviced industrial land in Junee, sales and other relevant data in Junee, Wagga Wagga and other surrounding towns.
- Chapter 3: Development option: provides a description of development and development costs
- Chapter 4: Feasibility assessment: summarises the key performance indicators from the financial modelling of a hypothetical development of the land for an industrial estate.
- Chapter 5: Discusses project risks and implementation steps to ensure delivery while mitigating those risks.

2.0 MARKET APPRAISAL

2.1 Stakeholder consultation

A workshop with Councillors was held on the 11 July 2023 to gauge opinions on market appetite for industrial land uses in Junee. There was general consensus amongst the Councillors that Junee has no industrial sites available for new businesses yet there is latent demand for industrial sites. Most attention has been in Wagga Wagga and recently Coolamon has attracted market interest. Junee offers a cheaper alternative to Wagga Wagga. Most likely businesses in the industrial park would be light industrial land uses serving the local or sub-regional area including agri-businesses.

There were mixed opinions regarding possible use of the railway line and preferred locations for an industrial estate. Suggestions included Old Junee and Illabo as well as Junee. Notwithstanding there was general agreement that land was needed for an industrial estate.

Coolamon was often noted by Councillors as a successful business estate although it still hasn't been formally marketed. There are no confirmed sales transactions. This is a long piece of land stretching 1.1km fronting Wade Street and backing onto the railway line. Its main advantage is that little work is required to develop the site. It does not require the construction of a new road. Coolamon Shire Council advises that the lots will range in size from 2,000sqm to 2,900sqm and that there has been strong interest with an end sale price of around \$125/sqm.

Conversations with local agents have indicated that due to the limited availability of industrial land in Junee, this is an untested product and the appetite for industrial land by locals is unknown. The price point of land in Junee would need to be economical to attract buyers from Wagga Wagga industrial estate which is about a 20 minute commute.

2.2 Industrial sales

Activity in the industrial property market in Junee has been quiet over the past three years with no new transactions or long-term leases. By contrast Wagga Wagga has been quite active. Recent transactions are summarised below.

Table 1: Recent freehold sale transactions

Address	Sale price Sale date	Land area \$/sqm (unimproved)	Comments
35-37 Dobney Avenue, Wagga Wagga	\$3,600,000 Mar, 2022	2,744sqm \$364	Near regular shaped parcel of land sold as an investment industrial/showroom asset. Underlying zone of E3 Productivity Support. Deducting an estimate of the value of the depreciated improvements shows an underlying unimproved land value of around \$1m.
5-7 Dobney Avenue, Wagga Wagga	\$1,250,000 Jul, 2022	2,087sqm \$263	Older style multi-tenant industrial/showroom building. Underlying zone of E3 Productivity Support. Deducting an estimate of the value of the depreciated improvements shows an underlying unimproved land value of around \$0.7m.
27 Dobney Avenue, Wagga Wagga	\$1,300,000 Aug, 2022	2,144sqm \$373	Older style industrial building. Underlying zone of E3 Productivity Support. Deducting an estimate of the value of the depreciated improvements shows

Address	Sale price Sale date	Land area \$/sqm (unimproved)	Comments
			an underlying unimproved land value of around \$0.8m.
1 Mortimer Place, Wagga Wagga	\$720,050 Oct, 2022	1,043sqm \$479	Older style industrial building. Underlying zone of E4 General Industrial. Deducting an estimate of the value of the depreciated improvements shows an underlying unimproved land value of around \$0.5m.
43 Dobney Avenue, Wagga Wagga	\$1,200,000 Dec, 2022	2,719sqm \$257	Older style multi-tenant industrial/showroom building. Underlying zone of E3 Productivity Support. Deducting an estimate of the value of the depreciated improvements shows an underlying unimproved land value of around \$0.7m
2 Berthong Street Cootamundra	\$429,000 Jul, 2022	7,118sqm \$21	Older style warehouse. Underlying zone of E4 General Industrial. Deducting an estimate of the value of the depreciated improvements shows an underlying unimproved land value of around \$0.15m
2-10 King Drive, Cootamundra	\$550,000 Mar, 2023	5,169sqm \$54	Older style warehouse. Underlying zone of E4 General Industrial. Deducting an estimate of the value of the depreciated improvements shows an underlying unimproved land value of around \$0.28m

Recent strata sales in Wagga Wagga is shown in the table immediately below.

Table 2: Recent industrial strata sale transactions

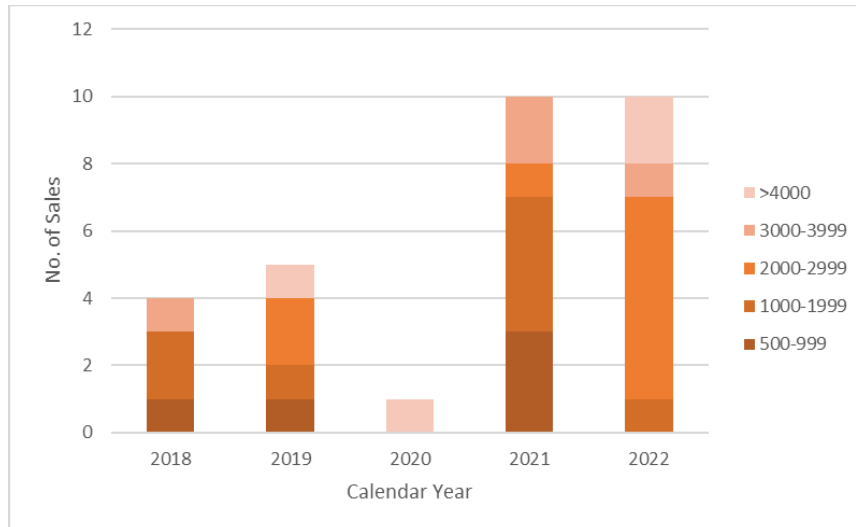
Address	Sale price Sale date	Building area \$/sqm	Comments
1/181 Hammond Avenue East Wagga Wagga	\$731,500 June 2022	378sqm \$1,935	Modern industrial unit built circa 2015
3/181 Hammond Avenue East Wagga Wagga	\$616,000 Mar. 2022	336sqm \$1,833	As above
7/181 Hammond Avenue East Wagga Wagga	\$390,000 May 2022	171sqm \$2,281	As above
7 & 8/24 Houtman Street, Wagga Wagga	\$605,000 Jul. 2021	261 \$2,318	Brand new complex

No. 7/24 Houtman Street, Wagga Wagga is on the market with an an asking rent of \$28,000 per annum which equates to \$199/sqm of building area.

2.3 No. of Sales in Wagga Wagga

Activity has been high in the post COVID period as depicted by the number of sales shown in the chart immediately below.

Figure 1: Sales volume by size between 2018 and 2022



Source: Source: CoreLogic RPData

2.4 Vacant land sales

Recent vacant land sales are shown in the table immediately below.

Table 3: Vacant industrial land

Address	Sale price Sale date	Land area \$/sqm (unimproved)	Comments
64 Pearson Street, Wagga Wagga	\$7,970,000 Feb. 2022	46,720sqm \$171/sqm	Near regular shaped parcel of land purchased by Bunnings which indicated interest in relocating to the site. Minimally improved. Underlying zone of E3 Productivity Support.
5 Barrett Street Cootamundra	\$137,500 July 2022	4,101sqm \$34/sqm	Irregular shaped and flat parcel of land. Sealed street frontage, kerbed and guttered, power and water available. Underlying zone of E4 General Industrial.
101-173 Cowcumbra Street Cootamundra	\$850,000 Mar. 2023	23.45ha \$3.62/sqm	Irregular shaped of land. Partly flood prone land. Recently being used as a 5 megawatt solar farm with battery energy storage facility
3 Dangar Place, East Wagga Wagga	\$740,000 Oct. 2022	6,167sqm \$120/sqm	Near regular shaped parcel of land. Located within a new industrial subdivision. Underlying zone of E4 General Industrial.
6 Dangar Place, East Wagga Wagga	\$552,640 May 2023	5,024sqm \$110/sqm	Near regular shaped parcel of land. Located within a new industrial subdivision. Underlying zone of E4 General Industrial.

As shown in the above table there is considerable variation in sale price on dollar per square metre basis. Due to the limited availability of industrial land in Junee and inactivity over the past several years serviced industrial land is an untested product and the appetite for industrial land is unknown.

However effective demand is restricted by supply. Inactivity can be the result of supply constraints rather than lack of demand and that the market could be more active if the level of supply was increased. The view from Councillors and industry representatives is that there is some latent demand for industrial land but without increasing supply the market will remain inactive. In the implementation section we'll look at options for providing industrial lands with methods to de-risk the process for Council.

3.0 DEVELOPMENT OPTION

Several locations for an industrial park were previously investigated by Council. The preferred location was immediately north of the town. This land was preferred due to its proximity to the town centre and relatively straightforward to service. The land is currently zoned RU1 and would require rezoning. It was identified in the LSPS for investigation for future industrial land as depicted in the diagram immediately below.

Figure 2: Industrial land investigation area



Source: Junee Local Strategic Planning Statement 2020

For the purpose of the feasibility testing we have assumed a hypothetical industrial estate 18.9 hectares in size comprising an internal road and 60 industrial lots with an average size of 2,700sqm. This is a preferable size for small lot subdivision predominantly for urban services although there is flexibility to have varying lot sizes.

MJM Consulting Engineers costed the hypothetical development including subdivision, road construction and servicing (water, sewer, drainage, power and NBN) at around \$15.55m net of GST. This includes design costs, application fees and contingencies but excludes land costs, developer contributions, finance and marketing costs. This calculates to \$96/sqm of developable land.

4.0 FEASIBILITY ASSESSMENT

4.1 Feasibility methodology

The feasibility of the proposed industrial estate was done using the Argus Estate Master Development Feasibility (EM) model (which was developed by HillPDA prior to the sale of Estate Master to Argus). The model provides a forecast cashflow of project revenues and costs discounted to a net present value (NPV) based on a target discount rate that reflects the level of project risk including planning, market, financial and procurement risks.

For a project of this scale to be viable we would expect to achieve an internal rate of return of around 14% to 17% and a development margin of 17% or more.

Please note that recent conditions have been highly unfavourable for the development industry including recent rises in interest rates, tightening of lending requirements, an increase in market risk combined with a sharp fall in pre-sales, increasing developer contributions and planning risk, recent escalation in construction costs, supply chain constraints and an increase in procurement risk and cost overruns. In theory these conditions should push hurdle rates up, but this is having significant impacts on residual land values making it difficult to procure development sites. For the purpose of the feasibility testing, we have assumed that conditions will improve over the next year or two.

4.2 Feasibility results

The summary of the feasibility results is shown in the table immediately below.

Table 4: Summary of Project Returns

	Total AUD	AUD Per Saleable hectare	AUD Per Ha of Site Area	% of Total Net Costs	Total Exc GST
Revenues					
Gross Sales Revenue	23,496,525	1,450,403	1,243,202	125.1%	23,496,525
Less Selling Costs	(499,024)	(30,804)	(26,403)	-2.7%	(499,024)
NET SALES REVENUE	22,997,501	1,419,599	1,216,799	122.4%	22,997,501
Less GST paid on all Revenue	-	-	-	0.0%	
TOTAL REVENUE (after GST paid)	22,997,501	1,419,599	1,216,799	122.4%	22,997,501
Costs					
Land Purchase Cost	567,000	35,000	30,000	3.0%	567,000
Land Acquisition Costs	23,440	1,447	1,240	0.1%	23,440
Construction Costs	15,592,158	962,479	824,982	83.0%	15,592,158
Professional Fees	372,959	23,022	19,733	2.0%	372,959
Statutory Fees	52,971	3,270	2,803	0.3%	52,971
Section 7.12	159,301	9,833	8,429	0.8%	159,301
Project Contingency (Reserve)	1,138,605	70,284	60,244	6.1%	1,138,605
Pre-Sale Commissions	88,389	5,456	4,677	0.5%	88,389
Finance Charges (inc. Fees)	76,096	4,697	4,026	0.4%	76,096
Interest Expense	712,750	43,997	37,712	3.8%	712,750
TOTAL COSTS (after GST reclaimed)	18,783,669	1,159,486	993,845	100.0%	18,783,669
Performance Indicators					
		Per Saleable hectare	Per Ha of Site Area		Total Exc GST
¹ Net Development Profit	4,213,832	260,113	222,954		
³ Development Margin (Profit/Risk Margin)	22.43%				
⁴ Residual Land Value	1,083,783	66,900	57,343		1,083,783
⁵ Net Present Value	459,364				
⁶ Benefit:Cost Ratio	1.0359				
⁷ Project Internal Rate of Return (IRR)	18.00%				
⁸ Residual Land Value	1,018,440	62,867	53,886		1,018,440

Footnotes:

- 1 Development Profit: is total revenue less total cost including interest paid and received
- 3 Development Margin: is profit divided by total costs (exc selling & leasing costs)
- 4 Residual Land Value: is the maximum purchase price for the land whilst achieving the target development margin.
- 5 Net Present Value: is the project's cash flow stream discounted to present value. It includes financing costs but excludes interest and corp tax.
- 6 Benefit:Cost Ratio: is the ratio of discounted incomes to discounted costs and includes financing costs but excludes interest and corp tax.
- 7 Internal Rate of Return: is the discount rate where the NPV above equals Zero.
- 8 Residual Land Value (based on NPV): is the purchase price for the land to achieve a zero NPV.

The above financial returns are quite good for an industrial land development of this type. The development margin appears healthy at more than 22% but this performance indicator is less relevant than the project IRR given the project life of 7 plus years.

Project IRR is strong at 18% and is above the target of 14% to 17% as mentioned above. However this is predicated on the assumptions of eight lots being sold per annum with a sale value of \$125/sqm and escalating at 4% per annum. Any change to one or more of these assumptions would impact the financial returns considerably.

4.3 Assumptions

Assumptions in the modelling include the following:

1. Project commencement is January 2024
2. Rest period is months.

3. An upfront land cost was included at \$30,000 per hectare sourced from comparable non-urban site sales of broad acreage land in the Junee LGA since July 2000.
4. Early planning commences immediately.
5. Development occurs in two stages.
6. Construction for Stage 1 commences in Month 15 and spans 9 months.
7. Pre-selling lots commences in Month 9.
8. Average sales rate is 8 lots per annum.
9. The cost of roads, kerb and gutter, landscaping and services was sourced from MJM.
10. The cost of professional services and application fees was sourced from MJM.
11. A 7.0% contingency on total project costs (net of land and finance costs) was included.
12. Professional fees and application fees (development application, construction certification, long service levy and miscellaneous fees) were sourced from MJM.
13. A Section 7.12 was included at 1% of design and construction cost paid immediately before construction for each stage of works.
14. All above costs were escalated a 4.0% per annum up to commencement of each stage of works.
15. Sale of lots is assumed at \$125/sqm net of GST.
16. Revenues are assumed to escalate at 4.0% per annum up to exchanged dates.
17. Sales commission, marketing and legal costs on sale was included at 2.5% of gross sales revenue.
18. All costs above are expressed net of GST.
19. The project is funded using developer's equity of \$2m drawn down first. Thereafter future costs are funded by debt and project revenue. Debt is unlimited and interest is charged monthly in arrears and capitalised at 7% per annum (0.58% per month).

4.4 Risk assessment

As shown in the summary table above the project is viable if development is staged and the lots are sold at a rate of 8 lots per annum with a current price of \$125/sqm. The project IRR is 18% which is a good return.

However there is a considerable level of market risk with the project and in particular there is a high level of uncertainty with the rate of sale of lots. Scenario analysis was undertaken to test the impact of slower rates of sale on project returns – 6 lots per annum and 4 lots per annum. The results are shown in the table below.

Table 5: Scenario Testing – Project returns under varying market take-up rates

Scenarios	Strong	Medium	Slow
	Good market - Project life = 7 years Industrial Land Subdivision - Sale of 8 lots per annum 60 Lots	Medium Market - Project life = 9 years Industrial Land Subdivision - Sale of 6 lots per annum 60 Lots	Slow Market - Project life = 13 years Industrial Land Subdivision - Sale of 4 lots per annum 60 Lots
Revenues			
Gross Sales Revenue	23,496,525	24,601,096	26,422,006
Less Selling Costs	(499,024)	(524,375)	(566,775)
TOTAL REVENUE (after GST paid)	22,997,501	24,076,721	25,855,231
Costs			
Land Purchase Cost	567,000	567,000	567,000
Land Acquisition Costs	23,440	23,440	23,440
Construction (inc. Construct. Contingency)	15,592,158	16,158,336	17,025,350
Professional Fees	372,959	384,736	402,272
Statutory Fees	52,971	55,038	58,124
Section 7.12	159,301	165,101	173,976
Project Contingency (Reserve)	1,138,605	1,179,770	1,242,745
Pre-Sale Commissions	88,389	90,653	93,775
Finance Charges (inc. Fees)	76,096	77,350	79,919
Interest Expense	712,750	863,137	1,228,629
TOTAL COSTS (after GST reclaimed)	18,783,669	19,564,561	20,895,231
Performance Indicators			
	1	2	3
¹ Gross Development Profit	4,213,832	4,512,160	4,960,000
³ Development Margin (Profit/Risk Margin)	22.43%	23.06%	23.74%
⁴ Residual Land Value (Target Margin)	1,083,783	1,150,276	1,189,056
⁶ Net Present Value	459,364	14,330	(585,924)
⁹ Project Internal Rate of Return (IRR)	18.00%	15.08%	11.91%
¹⁰ Residual Land Value (NPV)	1,018,440	581,084	(14,078)

- ¹ Development Profit: is total revenue less total cost including interest paid and received
- ³ Development Margin: is profit divided by total costs (exc selling & leasing costs)
- ⁴ Residual Land Value: is the maximum purchase price for the land whilst achieving the target development margin.
- ⁶ Net Present Value: is the project's cash flow stream discounted to present value. It includes financing costs but excludes interest and corp tax.
- ⁹ Internal Rate of Return: is the discount rate where the NPV above equals Zero.
- ¹⁰ Residual Land Value (based on NPV): is the purchase price for the land to achieve a zero NPV.

Project IRR is considerably lower when market take-up is reduced to four lots per annum. However an IRR of 12% is still a good result under this pessimistic scenario. A greater risk is if there is no escalation in end sale values and/or the price of the lots need to be discounted to sell. This could result in negative profit. A sales rate of four lots per annum combined with no escalation in end sale values results in a negative margin of 10% and a project IRR of 0.4%.

In the next section we consider some options for implementation to facilitate the delivery of the industrial estate while minimising risk to Council.

5.0 RISK MANAGEMENT AND IMPLEMENTATION

As discussed above the main risk the project is market risk. Other risks include planning risk and procurement risk including capital costs and cost overruns. Planning risk is unlikely to impact Council's budget as significantly as market and procurement risk. It can however affect the timing of the project and delay economic development and job creation.

As stated above construction costs and procurement risk has increased considerably over the past couple of years, but we expect conditions to normalise over the next few years and that capital works can be delivered cost effectively through more price competitive tendering.

Market risk is the strongest risk to project success. Below are some options and/or steps to assist in reducing project risk while ensuring project objectives are met. Some of these options can be combined.

5.1 Rezone the land.

Council could rezone the land and then simply leave it to the land owners to develop. The main advantage with this option is little capital outlay for Council and little financial risk. The main disadvantage with this option is that it will not ensure delivery of the industrial estate. It is dependent on the land owners committing to development.

Note that whatever delivery method is used, rezoning will be necessary to develop the land for industrial purposes.

5.2 Council develops the land

In this option Council acquires the land or portion of land, rezones it, and develops it themselves. While this option gives Council more certainty of outcome it means that Council accepts full project risk. On the upside there is an opportunity for Council to make an investment return.

This option relies on a land owner willing to sell their site to Council. To avoid possible escalation from speculation, Council should negotiate and acquire the site prior to rezoning.

5.3 Private public partnership

In this option Council undertakes the development on the land without acquiring the land. This is a joint venture whereby the land owner contributes the land to the project and Council develops it into industrial lots. Revenue sharing between the equity partners is arranged through a legal contractual agreement. There are some advantages with this arrangement which can reduce financial exposure to Council and reduce various ancillary costs such as stamp duty on acquisition and interest costs. However it can involve considerable legal and accounting costs.

5.4 Grant funding

Council could prepare a business case for State or Federal Government funding for enabling infrastructure. The main case for grant funding is that infrastructure costs are high and neither Council nor the land owners have the budget for it. Grant funding is therefore essential to ensure the project objectives of job growth and economic development in Junee and the delivery of essential services.

5.5 Pre-selling

Pre-selling lots 'off-the-plan' helps to de-risk the project by reducing market risk. If bank financing is sought, then the bank is likely to require a proportion of pre-sales before lending.

5.6 Staging

The financial modelling assumed a two staged development. A further option is a three staged development with the first lots directly fronting the existing road infrastructure (Old Junee Road). The advantage with this option is it advances some revenue ahead of capital works which improves the cash flow and reduces interest costs. The disadvantage with this option is that it results in a higher number of properties with direct frontage to the existing road. It would require an extension of the 50kmph zone along the Old Junee Road.

5.7 Suggested next steps for Council

Suggested next steps for Council is provided immediately below. These steps have been suggested to assist in advancing the industrial precinct without Council over-committing or exposing itself to significant risks.

1. Meet and discuss with land owners interested in developing industrial land in Junee LGA.
2. Provide contextual information and support that might facilitate development of additional industrial land.
3. Investigate what suitable grants might be available to help to deliver the necessary infrastructure to support industrial land development.
4. Consider any suitable planning proposals for additional industrial land on their merits and with reference to Council's relevant strategies.
5. In consultation with the NSW Department of Planning, take the necessary steps to rezone land for industrial uses.
6. Continue working with the land owners to encourage development for industrial uses promptly.

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