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GC:ot
REF: V16693
19 August 2020

Mr Clarence Fong
C & C Fong Superannuation Fund Pty Ltd
45 Floramy Street
BOONDALL QLD 4034

Dear Clarence

SUPERANNUATION FUND VALUATION
LOTS 7 & 8, 1 PATRICKS ROAD, ARANA HILLS QLD 4054





Introduction	We refer to your email dated 31 July 2020 requesting an assessment of the above lots for superannuation taxation purposes.
Basis	Market value is defined as the amount that a willing buyer of the asset could reasonably be expected to pay to acquire the asset from a willing seller assuming: <ul style="list-style-type: none">• an arm's length transaction• proper marketing of the asset• both parties acted knowledgeably and prudently
Qualification	<p>The Australian Taxation Offices (ATO) guidelines for self-managed superannuation funds (SMSF) financial reporting, states that the valuation is required to confirm the SMSF has complied with the relevant superannuation law.</p> <p>The legislation requires the person who conducts the valuation must base the assessment on objective and supportable data and must be a registered valuer or a person (without formal valuation qualifications) who has specific experience or knowledge in a particular area.</p> <p>If however, the value of the asset represents a significant proportion of the funds value or the nature of the asset is complex or difficult, a qualified independent valuer should always be used.</p>
Critical Issue	<p>The outbreak of the Novel Coronavirus (COVID-19) was declared as a 'Global Pandemic' by the World Health Organisation on 11 March 2020. We have seen global financial markets and travel restrictions and recommendations being implemented by many countries, including Australia. The real estate market is being impacted by the uncertainty that the COVID-19 outbreak has caused. Market conditions are changing daily at present.</p> <p>As at the Date of Valuation we consider that there is a significant market uncertainty. This valuation is current at the Date of Valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the Date of Valuation). We do not accept responsibility or liability for any losses arising from such subsequent changes in value. Given the valuation uncertainty noted, we recommend that the user of this report review this valuation periodically.</p>

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Directors G D Clarke, J M Clarke, G P Moore, B K Sheppard

McGee Isles Love Pty Ltd
ABN 46 412 605 618

Valuation Uncertainty	<p>The outbreak of the Novel Coronavirus (COVID-19) was declared as a 'Global Pandemic' by the World Health Organisation on 11 March 2020. The local real estate market is being impacted by the uncertainty that the COVID-19 outbreak has caused and market conditions are changing daily at present. As a result, the Australian Property Institute Limited (API) has provided the following Valuation Protocol – Significant Valuation Uncertainty (Effective Date: 1 July 2020) as guidance to valuers and reliant parties.</p> <p>According to the Australian Property Institute Limited (API), most valuations will contain some element of uncertainty. Valuation Uncertainty can be defined as:</p> <p style="padding-left: 20px;"><i>The possibility that the Valuer's professional opinion as to the Market Value/Market Rent of the asset may differ from the price that could be achieved in a transfer of the asset as at the valuation date, assuming all other market conditions and variables remain constant.</i></p> <p>Furthermore, The International Valuation Standards Glossary at 20.11 states:</p> <p style="padding-left: 20px;"><i>"Assessing significance and materiality require professional judgement. However, that judgement should be made in the following context; Aspects of a valuation (including inputs, assumptions, special assumptions, and methods and approaches applied) are considered to be significant/material if their application and/or impact on the valuation could reasonably be expected to influence the economic or other decisions of users of the valuation; and judgements about materiality are made in light of the overall valuation engagement and are affected by the size and nature of the subject asset."</i></p> <p>As a result, the API considers the following statement appropriate;</p> <p style="padding-left: 20px;"><i>"The real estate market is being impacted by the uncertainty caused by the COVID-19 pandemic. As at the Date of Valuation we consider that there is market uncertainty resulting in significant valuation uncertainty.</i></p> <p style="padding-left: 20px;"><i>This valuation is therefore reported on the basis of "significant valuation uncertainty". As a result, less certainty exists than normal and a higher degree of caution should be attached to our valuation than normally would be the case. Given the unknown future impact that Covid-19 might have on real estate markets, we recommend that the user of this report review this valuation periodically.</i></p> <p style="padding-left: 20px;"><i>This valuation/assessment is current at the Date of Valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the Date of Valuation). We do not accept responsibility or liability for any losses arising from such subsequent changes in value."</i></p>
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<p>Property Description</p>	<p>At our inspection of the Lots conducted on 6 August 2020, we noted the building is a strata title retail/commercial single level complex positioned behind a Hungary Jacks and Red Rooster restaurant which are all accessed via the same double width concrete crossover and bitumen sealed driveway. The premises have a Total Lot Area of 182m² (being Lot 7 – 114m² and Lot 8 – 68m²), are adjoining and are used as a restaurant (subject to the Retail Shop Leases Act 1994). The land is in the District Centre zone precinct in the Centre zone within the Moreton Bay Regional Council Planning Scheme.</p>
<p>Photos</p>	<div style="display: flex; flex-wrap: wrap;"> <div style="width: 50%; text-align: center;">  <p>Front Elevation and Car Parking</p> </div> <div style="width: 50%; text-align: center;">  <p>Service Counter</p> </div> <div style="width: 50%; text-align: center;">  <p>Dining Room</p> </div> <div style="width: 50%; text-align: center;">  <p>Commercial Kitchen</p> </div> </div>
<p>Property Description Cont.</p>	<p>The premises comprise; a tile entry and service counter, restaurant dining area (carpet floor, wall mounted air-conditioning and ducted air-conditioning, chandelier lights, roller blinds and ½ height security bars to windows), male and female toilets, built-in bar (tile floor, sink and laminate benchtops), store room, partitioned office, commercial grade kitchen with cold room (approx. 8m²) and also has access to the rear external walkway.</p>

Occupancy	The lots are tenanted by a party related to the Lessor. We have not sighted the original signed lease, however, have been provided with a copy by Mr Clarence Fong which is contained in the Appendices and summarised below:	
Lessor	C & C Fong Superannuation Fund Pty Ltd	
Lessee	Arana Court Pty Ltd trading as Arana Court Chinese Restaurant	
Term	10 years	From 27 September 2012 To 26 September 2022
Option	Nil	
Current Rent	\$80,448 net per annum (\$442/m ²)	From 27 September 2019 To 26 September 2020
Review	CPI annually and to market at the commencement of the Option	
Outgoings	Lessee is responsible for all Outgoings (totalling \$10,742 per annum) excluding Land Tax (\$0)	
Premises Area	182m ²	
Permitted Use	Restaurant	
Comment	<ul style="list-style-type: none"> • Lessee owns all fit out • Approx. 2 years and 1 month remaining on the lease term • Passing rent is considered to be above acceptable market parameters due to the Covid-19 pandemic together with higher levels of vacancy in Arana Hills commercial precinct and the surrounding suburbs. 	
Comparable Evidence	In arriving at the valuation, we have taken into account all relevant factors and considerations likely to affect the value of the asset. The following schedules detail those most comparable transactions we have relied upon in assessing the market value.	

Leasing Evidence

No.	Address	Tenant	Area (m ²)	Net Annual Rental (\$/m ²)	Term Review (Date)	Comparison
1	37 Blackwood Street Mitchelton	The Woods Bar	248	285	5+5 yrs CPI (Jul-20)	Inferior
2	20/77 Camelia Ave Everton Hill's	Get Wax'd	45	325	1+1 yrs N/A (Jul-20)	Inferior
3	1/736 South Pine Road Everton Park	Hair Dresser	91	396	5+5 yrs 4% (Dec-19)	Comparable

Conclusions

Net Annual Rent	Low	High
Evidence Range	\$285/m ²	\$396/m ²
Subject Range	\$350/m ²	\$400/m ²
Adopt	See Below	
Comments	<p>Given the above transactions, current uncertain market conditions as a result of the Covid-19 health pandemic, we believe the subject should rent for more than Lease 2 (\$325/m²) yet is broadly comparable to Lease 3 (\$396/m²). In this instance, we have assessed the subject at \$400/m² net per annum at the upper end of the range.</p> <p>As the passing Net rent above acceptable market parameters, the capitalised value has been adjusted for the above market rent being paid over the remainder of the initial lease terms. This adjustment is represented by the present value of the monthly difference between our assessed market rent and the passing face rent over a period (being 25 months to the lease expiry) at a discount rate of 9.6% (identifying market risk and uncertainty). This amount is then added to the capitalised value to arrive at the value of the property subject to the existing lease.</p>	

Sales Evidence

No.	Address	Purchase Price (Date)	Unit Area (m ²)	Yield	Unit Analysis (\$/m ²)	Comparison
1	Units 1,2&3 290 Dawson Parade Arana Hills	\$1,018,000 (Nov-18)	255	VP	3,992	Inferior
2	Unit 8 12 Blackwood Street Mitchelton	\$381,000 (Aug-18)	78	7.16%	4,885	Superior Yield Inferior overall
3	Unit 2 152 Musgrave Road Red Hill	\$656,000 (Jul-19)	91	VP	7,209	Superior
4	Unit 1 1300 Samford Road Ferry Grove	\$1,100,000 (Mar-19)	133	7.33%	8,271	Superior

Conclusions

Income Approach

Yield	Low	High
Evidence Range	7.16%	7.33%
Subject Range	7.25%	7.75%
Adopt	7.50%	
Comments	We have derived from the above Sales evidence the investment yields for commercial strata title units range from 7.16% for a unit with a lease tail of 2.9 years up to 7.33% for unit with combined income from a static billboard reflecting a WALE of 3 years. Given the long standing business with 2 year and 1 month lease tail, main road exposure, age and condition of the units, we believe the subject range is between 7.25% and 7.75% and have adopted the middle of the range within our calculations.	

Market Approach

Analysed NLA	Low	High
Evidence Range	\$3,992/m ²	\$8,271/m ²
Subject Range	\$5,000/m ²	\$5,750/m ²
Adopt (circa)	\$5,375/m²	
Comments	We have derived from the above Sales Evidence that improved rates for unit areas range from \$3,992/m ² for a combined 3 units which is larger and with a worse standard of presentation up to \$8,271/m ² for a smaller lot in a superior complex with better street frontage. The more comparable lots indicate a narrower range of \$5,000/m ² to \$5,750/m ² and we have adopted the middle of the range in our calculations.	

Calculations

Income Approach - (Primary Method)			
	Area (m ²)	Net Rent (\$/m ²)	Total
Annual Income			
Arana Court Chinese Restaurant	182	400	\$ 72,800
Total			\$ 72,800
Less Non recoverable Outgoings (Land Tax)			\$ nil
Sustainable Net Annual Income			\$ 72,800
Capitalised @	7.50%		\$ 970,667
			\$ 970,667
Plus	Rent Premium		\$ 14,504
			\$ 985,171
		Adopt	\$ 990,000

Market Approach – (Check Method)

Unit Area		182m ²	
Market Range	\$5,000/m ²	to	\$5,750/m ²
Calculated Value (circa)	\$900,000	to	\$1,050,000
Adopt		\$980,000	

We have derived from the above calculations that the market value ranges from \$990,000 (Income Approach) to \$980,000 (Market Approach). As the subject has a highest and best use for investment purposes, we have adopted the Income Approach (\$990,000) in this instance.

Valuation **\$990,000 GST Exclusive**
 (Nine Hundred and Ninety Thousand Dollars)

Qualifications We have used a rational valuation approach, which we consider is “fair and reasonable” and have undertaken the assessment in good faith, based on your instructions.
 Should you require a more detailed report for an asset class with specific ATO requirements, please do not hesitate to contact us.

McGEES PROPERTY



GREG CLARKE

Date: 19 August 2020

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