VALUATION & ADVISORY
Market Snapshot & Sales Analysis

Unrivalled Knowledge
Market-Leading Service

BRIEF MARKET COMMENT

Impacts of COVID-19

Please see attached two recent asset sales. One comprising a metropolitan office investment leased to a government tenant and the other a multi tenanted large format asset. The sales were negotiated prior to and completed in the earlier stages of the COVID-19 pandemic. They demonstrate the strong investment parameters which were in place prior to the onset of the pandemic. However as the impacts of the current health and economic crisis emerge, the different sectors in which the assets sit, have been impacted to different degrees.

As the impacts of the COVID-19 pandemic have progressed and intensified, the corresponding impacts upon the economy and their longer term impacts have also accelerated and increased. As the economy grinds to a halt and unemployment, both short and long term, potentially increases, there are associated impacts upon the property sector.

More recent discussions with agents show an increasing fallout during due diligence.

We make the following anecdotal comments of our observations of recent property market activity during our normal work activity.

MMJ incorporates a number of senior operators who were in operation during the global financial crisis, and in some cases the major turndown of the early 1990s. All agree the current circumstances, whilst not the making of a financial downturn as in previous occurrences, have had a more severe and immediate impact upon the economy and potentially, in turn, the property markets. In previous downturns, the economy was still active and businesses whilst in distress, were able to continue to trade. We are in new territory in the current environment.

It appears from our conversations with various market operators, that it is difficult to complete transactions when the security of income is unclear. Tenant viability is in a state of flux. Obviously most apparent within the retail sector, but also to some degree within the office sector. At present, to a lesser extent within the industrial sector, however, as the impacts broaden it is likely to also intensify impacts upon industrial activity

In relation to the private investor segment, again certainty of income stream is vital. Even more so to some degree with a private owner as opposed to a multi owner institutional landlord. Private owners tend to be geared higher, have a less technical approach to investigations and a lack of back up capital and repayment capability.

In our opinion any hope of market activity will rest upon security of income. As such government tenants and corporates perceived to be in essential industries, potentially provide a more steady or secure future income. However even if these aspects are satisfied, the longer term unknowns relate to capitalisation rates and effects on market value.

If a potential purchaser is willing to proceed, what factors inhibit completion. Our general discussions with financiers reveal, in their words, they are still technically open for business. However they are reviewing new applications more intensely and whilst still lending, are quite correctly more critical in their assessments and conditions.

The ability to complete due diligence is also impacted, primarily in the ability to travel and complete inspections as some companies institute occupational health and safety precautions in response to government mandates of essential travel.

As such a number of competing factors are impacting upon the ability of the market to perform and remain active.

So, where are we?

To date our major observable change is to activity and sentiment, however we consider these factors can and will most likely turn to more direct impacts upon performance and value. Lack of activity, rental arrears from struggling tenants and loss of cashflow must impact upon demand and value. Values have the potential to be more variable, as evidence will not represent the changing market conditions. Broad experience and having been part of previous downturns provide a basis for decision making. Consistency of approach is essential.

As mentioned many of MMJ's senior staff have seen previous downturns. In our opinion this downturn has included new factors, comprising a rapid and significant change to business trading conditions, which has resulted in a material change to tenant viability or short term closure impacting upon landlord cashflow.

We would not dare to attempt to say what will happen to the property sector going forward. However, all of the above point to an impact upon property demand and value. How this transcends to value will depend upon how and where the impacts of the current pandemic move and what short and medium term government initiatives are instituted and critically the market must remain active. And at present, this is a day by day situation.

SALE ANALYSIS / 211 Northumberland Street, Liverpool

Analysis Summary

Sale Price:	**$52,500,000**	
Sale Date:	Mar-20	
Vendor:	ESR/Propertylink	
Purchaser:	Private Investor	
NLA (sqm):	7,645 sqm	
Site Area	3,030 sqm	
Parking:	179	(1:43sqm NLA)
Vacancy:	0.00%	
WALE (On Income):	2.71 years	(settlement)
Initial Yield:	6.59%	Fully Let: 6.59%
Reversionary Yield:	6.09%	
Equivalent Yield:	6.16%	
Internal Rate of Return:	6.47%	
Improved Capital Rate	$6,867 psm	
Zoning/ FSR	Mixed Use	1.5:1
ESD:	4 Star	

INCOME SUMMARY

	NET PASSING INCOME	NET MARKET INCOME
	$3,458,297 pa $452 psm	$3,196,075 pa $418 psm
Office	$501 psm pa gross	$466 psm pa gross
Parking	$118 per space pcm	$118 per space pcm

Outgoings: $80 $456,820 psm

DESCRIPTION

A modern four storey office asset purpose built and fully leased to Centrelink. The building is well located within the south western precinct of the Liverpool CBD, approximately 700 metres west of Liverpool station. Liverpool has been designated as Sydneys third CBD with the core of the CBD rezoned to accommodate a range of mixed use retail, commercial and residential options. The subject asset falls within the rezoned precinct however this precinct is in its infancy.

COMMENTS

A good quality metropolitan CBD asset with a sound albeit relatively short WALE to a government tenant. This is a positive sale for the Liverpool CBD and demonstrates the improving profile as the regional centre for the surrounding south west growth centre.

The sale was negotiated prior to and completed in the earlier stages of the COVID-19 pandemic. It demonstrates the strong investment parameters which were in place prior to the onset of the pandemic. However it did complete, which may be partly due to its government tenant, which provides more certainty of income during uncertain times.

DCF ASSUMPTIONS

Rental Growth:	Office:	3.03%
(10 yr Compound Avg)		
	Parking:	2.76%
Leasing Up Allowance:		12.00 months
Average Lease Term:		5 years
Incentive Range:		15.00% (Gross)
Capex (% value):		$3,902,274 (2.80%)
Terminal Yield:		6.25%

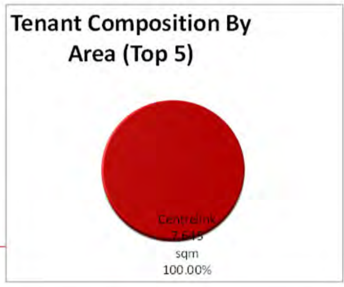
COMPOSITION SUMMARY

MAJOR TENANTS (By Income)

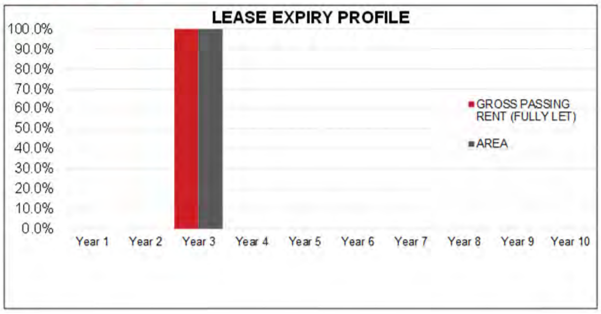
Centrelink	100%

AREA ANALYSIS

Office	7,645 m²
Total	7,645 m²



LEASE EXPIRY PROFILE



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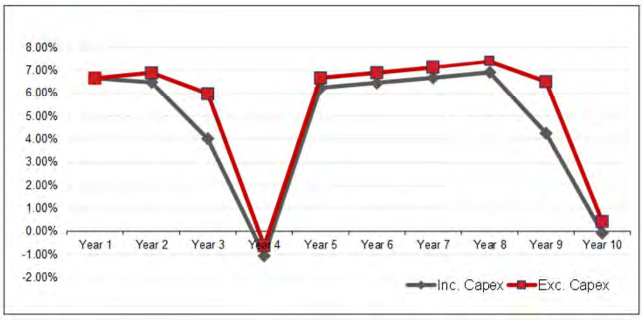

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About MMJ Real Estate:

The MMJ network currently comprises nine offices in NSW, VIC, ACT and WA. With a team of over 150 professionals, MMJ expertly delivers most commercial, retail, industrial and residential services, including Sales, Leasing, Valuation, Property Management, Project Marketing and Town Planning to its corporate, institutional and private clients

SALE ANALYSIS / 300 Parramatta Rd, Lidcombe

Analysis Summary

Sale Price:	**$46,000,000**	
Sale Date:	Mar-20	
Vendor:	Altis Property Partners	
Purchaser:	International Developer	
Lettable Area (sqm):	9,647 sqm	
Site Area	17,800 sqm	
Parking:	340	
Vacancy:	0.00%	
WALE (On Income):	8.20 years	(settlement)
Initial Yield:	5.46%	Fully Let: 5.46%
Reversionary Yield:	5.46%	
Equivalent Yield:	5.45%	
Internal Rate of Return:	6.58%	
Improved Capital Rate	$4,768 psm	
Zoning	B6 Enterprise Corridor	

INCOME SUMMARY

NET PASSING INCOME	NET MARKET INCOME
$2,512,393 pa $260 psm	$2,512,393 pa $260 psm

Outgoings: $59 $456,820 psm

DESCRIPTION

A modern multi tenanted large format complex comprising single level retail accommodation and lower level covered parking. The building is well located within the Parramatta Road Lidcombe large format precinct being situated opposite Primewest Megamall and amongst other national occupiers.

COMMENTS

A modern large format asset with a long WALE to well known occupiers.

The sale was negotiated prior to and completed in the earlier stages of the COVID-19 pandemic. It demonstrates the strong investment parameters which were in place prior to the onset of the pandemic. However it did complete, even though it was within a discretionary retail sector. In the intervening period since the sale the discretionary retail sector has experienced significant sentiment and performance issues.

DCF ASSUMPTIONS

Rental Growth:	Retail:	3.03%
(10 yr Compound Avg)		
Leasing Up Allowance:		12.00 months
Average Lease Term:		5 years
Incentive Range:		15.00% (Gross)
Capex (% value):		$2,105,404 (2.80%)
Terminal Yield:		5.75%

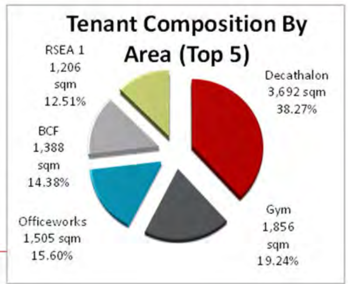
COMPOSITION SUMMARY

MAJOR TENANTS (By Income)

Decathalon	36%
Gym	18%
Officeworks	17%

AREA ANALYSIS

Retail	9,647 m^2
Total	9,647 m^2



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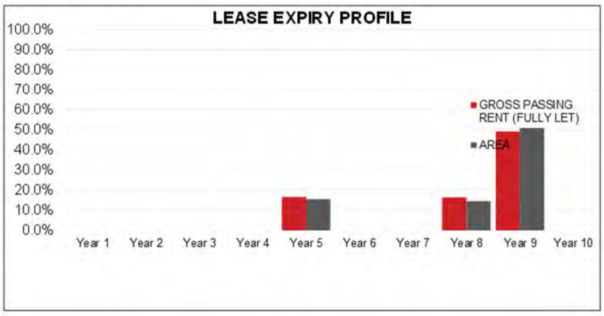
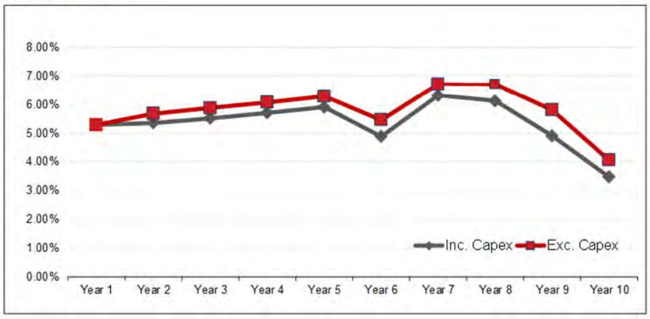


RUNNING YIELDS



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Our inputs and analysis are based upon available information and our market knowledge. The analysis is for general information purposes only and should not be relied upon for formal decision making purposes.

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