



Nick Scali Limited

Independent expert's report and Financial Services Guide

13 September 2017

**The Proposed Acquisition is fair and reasonable to the
Non-Associated Shareholders of Nick Scali**

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately \$30,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of Nick Scali Limited (**Nick Scali**) acquisition of the Auburn Premises from Scali Consolidated Pty Limited (**Scali Consolidated**) (**the Proposed Acquisition**).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

In April 2017, we were engaged by Nick Scali to prepare an IER opining on whether, or not, in our opinion, the proposed rental agreement, under which Scali Consolidated renewed the lease of the Auburn Premises with Nick Scali, was fair and reasonable to the Non-Associated Shareholders of Nick Scali. We received a fee of \$60,000 exclusive of GST in relation to the preparation of this report. The fee was not contingent on our conclusion.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9255 8434

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
info@fos.org.au
www.fos.org.au
Tel: 1800 367 287
Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

The Independent Directors
Nick Scali Limited
3-29 Birnie Avenue
Lidcombe
NSW 2141

13 September 2017

Dear Independent Directors

Re: Independent expert's report in relation to the proposed acquisition of the Auburn Premises

1 Introduction and background

Scali Consolidated Pty Limited (**Scali Consolidated**) is the owner of an economic interest representing more than 25% of Nick Scali Limited (**Nick Scali** or **the Company**). Scali Consolidated is controlled by Mr Anthony Scali, who is the Managing Director of Nick Scali. Scali Consolidated owns the land and buildings at 222-246 Parramatta Road, Auburn NSW (**the Auburn Premises**) from which the Nick Scali Auburn store (**the Auburn Store**) operates. Accordingly, Scali Consolidated is considered to be a related party to Nick Scali.

In April 2017, Nick Scali requested Deloitte Corporate Finance Pty Limited (**Deloitte Corporate Finance**) to prepare an independent expert's report (**IER**) opining on whether, or not, the rental agreement for the Auburn Store that Nick Scali was proposing to enter into with Scali Consolidated (**the Proposed Rental Agreement**) was fair and reasonable to those shareholders of Nick Scali that are not associated with Anthony Scali or Scali Consolidated (**Non-Associated Shareholders**). Our IER, dated 28 April 2017 (**Previous IER**), was released as an announcement by Nick Scali on 4 May 2017, in conjunction with the explanatory memorandum and the notice of extraordinary general meeting (**EGM**). The EGM was held on 5 June 2017 and the Non-Associated Shareholders approved the Proposed Rental Agreement.

Scali Consolidated has subsequently decided to sell the Auburn Premises. Nick Scali has entered into a sale and purchase agreement with Scali Consolidated to acquire the Auburn Premises from Scali Consolidated for \$22 million (**the Proposed Acquisition Price**), subject to the approval of Non-Associated Shareholders (**the Proposed Acquisition**).

Chapter 10.1 of the Listing Rules of the Australian Securities Exchange Limited (**ASX**) (**the Listing Rules**) requires, when the acquisition of a substantial asset from a related party is proposed, the preparation of a report by an independent expert stating whether the proposed transaction is fair and reasonable to the non-associated shareholders.

The independent directors of Nick Scali (**Independent Directors**) requested Deloitte Corporate Finance to prepare an IER opining on whether, in our opinion, the Proposed Acquisition is fair and reasonable to Non-Associated Shareholders.

We have prepared this report having regard to Chapter 10 of the Listing Rules and the Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 76 (**RG 76**), ASIC Regulatory Guide 111 (**RG 111**) and ASIC Regulatory Guide 112 (**RG 112**).

This report is to be included in the Explanatory Memorandum to be sent to shareholders of Nick Scali (**the Shareholders**) and has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Proposed Acquisition. Neither Deloitte Corporate Finance, nor Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Nick Scali, in respect of this report, including for any errors or omissions however caused.

2 Basis of evaluation of the Proposed Acquisition

2.1 Purpose of the report

Chapter 10 of the Listing Rules states that when an entity enters into a transaction with certain persons such as a related party or a substantial holder, the transaction requires approval by shareholders not associated with the relevant person. The Listing Rules require the directors of the entity to commission a report by an independent expert stating whether the proposed transaction is fair and reasonable to the non-associated shareholders.

2.2 Guidance

In evaluating whether the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders, we have had regard to the ASX Listing Rules, ASIC RG 76 in relation to related party transactions, ASIC RG 111 in relation to the content of expert's reports and ASIC RG 112 in respect of the independence of experts.

Chapter 10 of the Listing Rules

ASX Listing Rule 10.1 provides that any transaction between a company and a related party of the entity requires shareholder approval. Accordingly, an IER is required to be commissioned under ASX Listing Rule 10.10.2.

Neither the ASX Listing Rules, nor the Corporations Act 2011 (Cth) provides a definition of fair and reasonable for the purposes of ASX Listing Rule 10. However, Listing Rule 10 can encompass a wide range of transactions. Accordingly, fair and reasonable must be capable of broad interpretation to meet the particular circumstances of each transaction. This involves judgement on the part of the expert as to the appropriate basis of evaluation to adopt given the particular circumstances of the transaction.

As Chapter 10 of the Listing Rules provide little guidance on how related party transactions should be assessed, we have had regard to ASIC RG 76, as discussed below.

ASIC RG 76

According to ASIC RG 76, a related party transaction is any transaction through which a public company provides a financial benefit to a related party. As noted in paragraph RG 76.1, related party transactions involve conflicts of interest because related parties are often in a position to influence the decision of whether the benefit is provided to them, and the terms of its provision.

ASIC RG 76 refers to ASIC RG 111 and ASIC RG 112 for guidance on how the independent expert should assess related party transactions.

ASIC RG 111 and RG 112

ASIC RG 111 provides guidance in relation to the content of independent expert's reports prepared for a range of transactions. ASIC RG 111 notes that a related party transaction is:

- fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the benefit being received. In valuing the financial benefit given and the consideration received by the entity, an expert should take into account all material terms of the proposed transaction
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should vote in favour of the transaction.

RG 112 primarily focuses on the independence of experts and provides little guidance on evaluating transactions.

2.3 Basis of evaluation

In evaluating whether or not the Proposed Acquisition is fair and reasonable to Non-Associated Shareholders, pursuant to Listing Rule 10.1, we have made a separate assessment of whether, or not, the Proposed Acquisition is 'fair' and 'reasonable' as required by RG 111.56.

We have taken into account the following factors in determining whether, or not, the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders:

Fairness

- how the Proposed Acquisition Price of \$22 million compares with the assessed fair market value of the Auburn Premises

Reasonableness

- the nature and content of the bargaining process, including whether Nick Scali followed robust protocols to ensure that conflicts of interest were appropriately managed in negotiating and structuring the transaction
- the impact of the transaction on the Company
- any other options that may be available to the Company
- expert advice received by the Company on the transaction (if any)
- other advantages that may accrue to the Company as a result of the Proposed Acquisition.

2.4 Role of the technical expert

LandMark White (**LMW or the Technical Expert**), an independent property advisory firm, was engaged to prepare a report providing an assessment of the fair market value of the Auburn Premises (**LMW Valuation Report**) given that this is not our area of expertise and requires specialised knowledge of market conditions in a particular area.

LMW prepared the LMW Valuation Report having regard to the definition of fair market value, which is defined as the amount at which assets or liabilities would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. The scope of LMW's work was controlled by Deloitte Corporate Finance. A copy of the LMW Valuation Report is provided in Annexure A and we have discussed the manner in which we engaged with LMW and their work in Section 7.2 below.

3 Profile of Nick Scali

3.1 Overview of Nick Scali

Nick Scali was founded by Mr Nick Scali in 1965 and is a listed Australian retailer of household furniture and related accessories. Scali Consolidated is the largest shareholder of Nick Scali, holding approximately 27.3% of its shares.

The Company operates under two brands across Australia (excluding Northern Territory):

- the Nick Scali brand, which has 46 stores, and
- Sofas2Go, which has five stores.

3.2 Financial performance

A high level summary of Nick Scali's audited financial performance for the financial years (FY) ending 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017 is presented in the table below.

Table 1: Financial performance

\$'000s (unless otherwise stated)	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Revenue	141,442	155,743	203,045	232,908
Cost of goods sold	(56,019)	(61,280)	(79,676)	(87,346)
Gross profit	85,423	94,463	123,369	145,562
EBIT	19,535	23,787	37,076	52,903
Profit before tax	20,358	24,422	37,452	53,199
Tax expense	(6,122)	(7,345)	(11,302)	(15,963)
Profit after tax	14,236	17,077	26,150	37,236
Other comprehensive income	(723)	331	(908)	320
Total comprehensive income for the year	13,513	17,408	25,242	37,556
Key metrics:				
Growth in revenue %	n/a	10.1%	30.4%	14.7%
Growth in revenue from existing stores % ¹	n/a	3.4%	11.1%	10.0%
Gross profit margin %	60.4%	60.7%	60.8%	62.5%
EBIT margin %	13.8%	15.3%	18.3%	22.7%
Basic earnings per share (cents)	17.6	21.1	32.3	46.0
Dividends declared (cents)	13.0	15.0	23.0	34.0

Notes:

1. represents the growth in revenue from the same stores that were in operation for the full current period and prior period. Source: audited financial statements for the financial years ended 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017, ASX announcements, Deloitte Corporate Finance analysis

Revenue has grown period on period, which has been the result of a combination of new store openings (seven new stores opened during FY2015, two new stores opened during FY2016 and four new stores opened during FY2017) and organic growth in existing stores.

EBIT margins have continued to improve from FY2014 to FY2017 as a result of:

- a continuing focus on cost efficiencies, especially in relation to property expenses with many leases being renewed on favourable terms
- ongoing improvements in sourcing and supply chain strategies
- a reduction in the rental expense following a number of property acquisitions
- economies of scale.

3.3 Financial position

A high level summary of Nick Scali's audited financial position as at 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017 is presented in the table below.

Table 2: Financial position

\$'000s (unless otherwise stated)	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Cash and cash equivalents	35,903	33,680	37,038	39,944
Inventories	19,013	24,212	25,847	29,045
Other current assets	264	973	384	797
Total current assets	55,180	58,865	63,269	69,786
Plant, property and equipment	22,868	35,094	55,493	66,847
Intangible assets	2,378	2,378	2,378	2,378
Deferred tax	-	-	331	105
Total non-current assets	25,246	37,472	58,202	69,330
Payables	(27,407)	(33,172)	(37,274)	(42,805)
Other current liabilities	(3,746)	(2,393)	(3,110)	(2,565)
Total current liabilities	(31,153)	(35,565)	(40,384)	(45,370)
Borrowings	(6,762)	(12,062)	(21,162)	(21,162)
Other non-current liabilities	(2,381)	(2,484)	(2,131)	(2,200)
Total non-current liabilities	(9,143)	(14,546)	(23,293)	(23,362)
Shareholder's equity	40,130	46,226	57,794	70,384

Source: audited financial statements for the financial years ended 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017, ASX announcements, Deloitte Corporate Finance analysis

We note the following with respect to the above:

- inventory levels have continued to increase due to new store openings
- increases in plant, property and equipment in FY2015, FY2016 and FY2017 primarily represent acquisitions of properties, which are generally occupied by Nick Scali. The acquisition of the property in FY2017, which is located in Manly Vale (NSW), was entirely funded by cash
- intangible assets represent the goodwill arising from the acquisition of the stores in Adelaide
- payables primarily relate to customer deposits, trade creditors and other accruals
- bank borrowings have increased in FY2015 and FY2016 as the property acquisitions were partially funded by debt in those years
- Nick Scali's cash balances exceeded borrowings by \$18.8 million as at 30 June 2017.

4 Profile of the Auburn Premises

4.1 Overview

The Auburn Premises is located within the western suburbs of Sydney, approximately 17 kilometres from Sydney's central business district. The property is in relatively close proximity to transport and retail amenities, with the Auburn Railway Station and Auburn Town Centre located approximately 1.3

kilometres away. The Auburn Premises has street frontage to both Parramatta and Kihilla Roads, which provide significant exposure to passing traffic. Certain of the properties in the area also house large format retail stores. It has a land area of 4,761 square metres (**sqm**), and a gross lettable area retail (**GLAR**) of 5,480 sqm.

The site comprises a circa 1990 two storey bulky goods showroom and warehouse building with 97 basement parking spaces, loading dock and basic landscaping. Scali Consolidated recently refurbished the Auburn Premises to a high standard, with improvements including the installation of a common ground level entry foyer, a new lift servicing all levels, new escalators to the upper level, new façade, new building signage and an extension of the upper level (**the Works**). LMW have had regard to the Works when undertaking their valuation of the Auburn Premises.

Further details on the Auburn Premises is provided in the LMW Valuation Report at Annexure 1.

4.2 Tenant profile and rental agreements

The Auburn Premises is currently 100% leased to Nick Scali and John Cootes Furniture (**JCF**) on long term leases, with a weighted average lease to expiry (**WALE**) by income and area of 7.2 years. Both Nick Scali and JCF are retailers of household furniture and related accessories and are considered to be good quality, name brand tenants.

Nick Scali currently occupies the ground floor of the Auburn Premises (**the Ground Floor**). Management of Nick Scali (**Management**) have advised us that JCF had access to the first floor of the Auburn Premises (**the First Floor**), for fitout purposes, since 4 August 2017.

We have provided a summary of the current rental agreements in the table below:

Table 3: Current rental agreements

Tenant	Nick Scali Lease	JCF Lease
Location	Ground Floor	First Floor
GLAR	2,543 sqm ¹	2,937 sqm ¹
Commencement date	1 November 2016	29 August 2017 ²
Term	8 years	7 years
Initial term expiry	31 October 2024	28 August 2024
Options	2 further option periods of 5 years each	No further option period
Initial rental	\$275 / sqm per annum + recoverable outgoings + GST.	\$230 / sqm per annum + recoverable outgoings + GST
Rent reviews	Fixed annual 3% reviews	Fixed annual 3% reviews
Outgoings paid by lessee	Proportional to the GLAR of the tenancy to the building	Proportional to the GLAR of the tenancy to the building
Incentive	3 months rent free from February 2017 to April 2017	3 months rent free from the commencement date plus a fitout contribution of \$100,000
Other matters	N/A – no other matters noted	JCF has a first right of refusal to lease the Ground Floor

Notes:

1. GLAR is based on the most recent building plans provided by Management

2. The commencement date is the earlier of: 1) the day after the expiry of JCF's fitout period, which is 28 days from the Handover Date, which is 4 August 2017; or 2) the day on which JCF commences trading from the First Floor. Having regard to this, we are of the view that it would be reasonable to assume that JCF will use the full 28 days of the fitout period and therefore the estimated commencement date will be 1 September 2017.

Source: Management, LMW Valuation Report

We have been informed by Management that they will not be liable for JCF's lease incentives.

4.3 Overview of Nick Scali's Auburn Store

The Auburn Store is one of Nick Scali's top five stores in terms of revenue. From FY2014 to FY2017, the Auburn Store experienced a compound annual revenue growth rate (**CAGR**) of 1.3%.

In the diagram below, we present the FY2017 revenue, operating profit margin and operating profit per square metre for stores which are comparable to the Auburn Store in relative terms. The data has been rebased and anonymised at a store level in order to protect the commercially sensitive nature of the information.

The comparable Nick Scali stores have been selected by Management based on location, foot traffic and turnover, and in totality, account for approximately 33% of Nick Scali's total revenue. We consider the basis for the selection of the stores appropriate.

Figure 1: Comparison of the Auburn Store to comparable Nick Scali stores (revenue and revenue per gross rent)

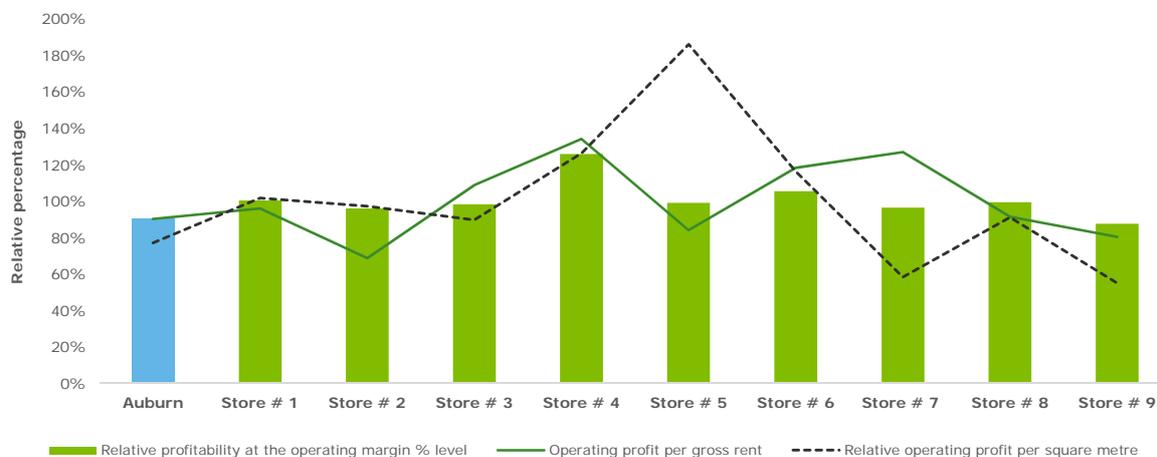


Source: unaudited statement of profit and loss (broken down by each Nick Scali store) for the year ended 30 June 2017, Deloitte Corporate Finance analysis

The Auburn Store generates higher revenue in comparison to the average of other Nick Scali stores used for benchmarking purposes. Furthermore, the Auburn Store also generates higher revenue per dollar of gross rent, which reflects the fact that the rent per square metre at the Auburn Store is generally lower than the comparable stores. However, the comparison is not always a direct one as certain of the stores are located in large format retail shopping centres and therefore attract higher foot traffic and rental charges. Nonetheless, the comparable Nick Scali stores provide some basis for comparison. It is also worthwhile noting that the above analysis has been undertaken using data in respect of FY2017 and, therefore, the revenue (and profitability) of the Auburn Store may have been impacted by the Works that were undertaken recently.

We have also analysed the FY2017 operating margin, operating profit per square metre and operating profit on a per dollar of gross rent incurred basis. For reasons noted above, this data has also been rebased.

Figure 2: Comparison of the Auburn Store to comparable Nick Scali stores (operating profit margin, operating profit per square metre and operating profit per dollar of rent)



Source: unaudited statement of profit and loss (broken down by each Nick Scali store) for the year ended 30 June 2017, Deloitte Corporate Finance analysis

The Auburn Store's operating profit margin, operating profit per dollar of gross rent incurred and operating profit per square metre (all measured in relative terms) is below the average of other Nick Scali stores used for benchmarking purposes. This is likely to reflect the competitive dynamics of the area, given the significant choice available to consumers (along with the impact of the Works which was being undertaken during FY2017).

5 Terms of the Proposed SPA

Set out in the table below are the key terms of the proposed sale and purchase agreement (**Proposed SPA**).

Table 4: Key terms of the Proposed SPA

Key term	Note
Vendor	Scali Consolidated.
Purchaser	Nick Scali.
Property	222-246 Parramatta Road, Auburn, New South Wales 2144.
Completion Date	The later of the following dates: <ul style="list-style-type: none"> the day immediately after the last day of JCF's three months' rent free period five business days after the JCF Lease is registered, unless Nick Scali elects in its sole discretion to waive the requirement for JCF Lease to be registered prior to the completion of this contract five business days after Caveat AM215605¹ by JCF is removed from the title of the Auburn Premises, unless Nick Scali elects in its sole discretion to waive the requirement for Caveat AM215605 to be removed from the title prior to the completion of this contract.
Purchase Price	\$22 million.
Deposit	\$2.2 million, representing 10% of the Purchase Price. \$1.1 million is payable on the date the Proposed SPA is entered into and the remaining \$1.1 million is payable on the earlier of the Completion Date and default by Nick Scali which Nick Scali does not remedy within 14 days after Scali Consolidated gives notice to Nick Scali identifying the default.
GST	A proportion of the Purchase Price is treated as a taxable supply, and therefore subject to GST, for the purposes of section 9.80 under the <i>Goods and Services Act 1999</i> and <i>Goods and Services Tax Ruling GSTR 2001/8</i> : <ul style="list-style-type: none"> 50.5%² of the Purchase Price will be treated as a taxable supply 49.5%³ of the Purchase Price will be treated as a supply of going concern. Nick Scali must reimburse to Scali Consolidated the amount of GST on the taxable supply.
Additional Payment	In the event the completion of this contract takes place after the Completion Date as a result of the default of Nick Scali, Nick Scali acknowledges and agrees that Nick Scali will pay Scali Consolidated, on completion, interest on the balance of the purchase price payable at the rate of 8% per annum for the period between the Completion Date and the date upon which this contract is completed.
JCF Tenancy	Key items in relation to the JCF Lease: <ul style="list-style-type: none"> Scali Consolidated has agreed to grant JCF a lease on the First Floor. The Handover Date was 4 August 2017 and therefore the commencement date of the JCF Lease to be granted will be no later than 1 September 2017 Scali Consolidated must comply with all obligations of the lessor under the JCF Lease prior to the Completion Date, do all things reasonably necessary to promptly grant JCF the JCF Lease and cause the JCF Lease to be registered as soon as reasonably practicable thereafter Nick Scali will accept the Auburn Premises subject to the JCF Lease following the Completion Date, Nick Scali must comply with its obligations as lessor under the JCF Lease and must not do anything, or omit to do anything, which may cause JCF to be entitled to make any claim against Scali Consolidated if JCF notifies either Scali Consolidated or Nick Scali that there is a defect in the Auburn Premises or the Works during the period of 12 months beginning on the Handover Date (Defects Liability Period), Scali Consolidated must comply with its obligations under clause 3(d) of the JCF Lease, regardless of whether or not this notice is received before or after the Completion Date.

Key term	Note
Nick Scali Tenancy	Scali Consolidated must do all things reasonably requested by Nick Scali to enforce against the builder of the Works any defects liability period obligations and any other warranties or guarantees enjoyed by Scali Consolidated in respect of the Works.
Vendor Warranties	Scali Consolidated warrants that: <ul style="list-style-type: none"> there is no breach of the JCF Lease by Scali Consolidated or JCF on the Completion Date, there will be no outstanding or future incentives payable to JCF.
Conditional Contract	Nick Scali must use reasonable endeavours to cause an EGM (which will be included as an agenda on the AGM) to be convened as soon as reasonably possible after the date the Proposed SPA is entered into, but no later than 7 November 2017, for the purpose of seeking the approval of the Proposed Acquisition from the Non-Associated Shareholders. If the Non-Associated Shareholders do not approve the Proposed Acquisition, either party may rescind the contract by providing written notice. The deposit paid by Nick Scali will be refunded to Nick Scali and neither party shall have any claim against the other.

Notes:

1. Caveat AM215605 was lodged by JCF on the title of the Auburn Premises and relates to the rights of JCF under the JCF Lease. Ashurst (as defined below) has advised that once the JCF Lease has been granted and registered, there is no basis for Caveat AM215605 to remain on the title

2. calculated as Nick Scali's current annual rent divided by total rent, being $\$763,991 / \$1,514,186 = 50.5\%$

3. calculated as JCF's current annual rent divided by total rent, being $\$750,195 / \$1,514,186 = 49.5\%$.

Source: Proposed SPA

Outside of the terms set out above, the terms of the Proposed SPA are generic and the Law Society of NSW's template contract for the sale and purchase of land 2017 edition has been used as the basis of the Proposed SPA.

6 Market analysis

In assessing the reasonableness of the Proposed Acquisition, we have had regard to the current market for large format retail properties in Sydney. Based on our review of the LMW Valuation Report, we understand that:

- yields have firmed in recent years, with an overall trend towards yield compression in large format retail properties
- there is a reduced supply of large format retail space in the pipeline, with the vast majority currently under construction by large retailers in Sydney's west and no current approvals for future development
- rental growth levels have been helped by a strengthening residential property market over the past two years
- there remains good demand for assets, especially those with strong tenants and long leases, partly due to the record low cost of debt
- the closing down of 61 Masters Home Improvements stores has created opportunities in the industry, including the acquisition of 21 large format development sites. Notwithstanding this, we note that none of these properties are located in Auburn, with the closest site located in Chullora.

7 Factors considered

In determining whether, or not, the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders, we have considered the matters set out below.

7.1 Overview of the bargaining process

The Independent Directors of Nick Scali consider the Auburn Store to be a significant contributor to the Company's success for the following reasons:

- there is historical significance associated with the site as it was the location of one of Nick Scali's first stores
- the Auburn Store is suitable for Nick Scali's purposes, given the internal refurbishment work which Nick Scali recently undertook and the Works which were recently undertaken by Scali Consolidated

- the site is located within the bulky goods and large format retail precinct of Auburn and is situated alongside Harvey Norman. The Auburn Store is currently one of the largest (in terms of revenue) and one of the most profitable (in terms of EBITDA) stores
- the site has a large frontage on Parramatta Road, which provides high visibility for market purposes and has sufficient undercover off street parking.

Having regard to this and the fact that it is aligned with Nick Scali's strategy of controlling flagship properties, such as the Auburn Premises, the Independent Directors have formed the view that it would be beneficial to the Company if Nick Scali acquired the Auburn Premises.

In April 2016, Scali Consolidated proposed the sale of the Auburn Premises to Nick Scali. As a consequence of the proposal, Nick Scali formed an Independent Board Committee (**IBC**) comprising Mr John Ingram (Chairman), Mr Greg Laurie (Non-Executive Director) and Ms Carole Molyneux-Richards (Non-Executive Director) to consider the proposed transaction, with Ashurst Australia (**Ashurst**) appointed to act as legal adviser.

The IBC engaged Charter Keck Cramer (**CKC**) to advise them on the options available to the Company. CKC prepared a draft report for the IBC in September 2016 (the **CKC Advisory Report**). CKC provided advice in relation to the following:

- the value of the Auburn Premises, which considered the highest and best use of the property. CKC concluded that the best use of the Auburn Premises was its existing use
- the availability of properties for Nick Scali to lease, purchase or redevelop. CKC concluded that there were no suitable properties in the vicinity of the Auburn Premises with high exposure on Parramatta Road, offering a floor space greater than 2,000 square metres and having sufficient parking for that scale of building.

The IBC was unable to agree with Scali Consolidated on a price for the purchase of the Auburn Premises and Nick Scali (as represented by the IBC) accordingly ceased discussions regarding the acquisition of the Auburn Premises, though Nick Scali did enter into a long-term lease for the Auburn Store.

In May 2017, Scali Consolidated notified Nick Scali of its intention to sell the Auburn Premises and that it would commence a marketing process to sell the property. In response, Nick Scali (represented by the IBC) recommenced negotiations with Scali Consolidated to purchase the property outside of a formal marketing process. In arriving at the Proposed Acquisition Price, the IBC had regard to the following:

- the CKC Advisory Report
- information in relation to comparable Nick Scali stores, including the sales generated from and rent relating to those stores, as summarised in Section 4.3
- the JCF lease for the First Floor
- property yields observed in the sale of comparable properties, especially those which are occupied by other Nick Scali stores
- legal advice received from Ashurst
- the quality and extent of the Works
- the risk of a strategic buyer acquiring the Auburn Premises and potentially disrupting the Auburn Store's operations
- the lack of available alternative properties suitable for the size of the Auburn Store.

7.2 The fair market value of the Auburn Premises

LMW was engaged to prepare a report which assesses the fair market value of the Auburn Premises. We have relied on LMW's assessment for the purposes of our report. We have reviewed the LMW Valuation Report and consider it appropriate for our purposes for the following reasons:

- LMW is independent of Nick Scali, in accordance with the requirements of RG 112
- whilst LMW was engaged by Nick Scali, LMW has undertaken their work under our instructions
- there was no restriction on the scope of LMW's work
- the assessment undertaken by LMW was completed explicitly for the purposes of this IER
- the assessment was undertaken by a person who holds the appropriate qualifications and has experience in valuing large format retail properties
- the methodology used in undertaking the valuation of the Auburn Premises is consistent with methodologies generally applied in the industry. The discounted cash flow, capitalisation of net income and direct comparison approaches were used in arriving at the fair market value of the Auburn Premises. The assumptions and valuation metrics used by LMW are not unreasonable and not inappropriate for the purposes of estimating the fair market value of the Auburn Premises

- we have reviewed LMW's work, which also included holding discussions with them, and nothing has come to our attention with respect to the methodologies, assumptions and inputs used that would cause us to question their work or their assessment.

For the purposes of its assessment, LMW has adopted the following definition of fair market value:

Fair market value is the amount at which assets or liabilities would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell.

The upgrades to the Auburn Premises, as noted in Section 4.1, were recently completed in August 2017. In undertaking its assessment of the fair market value of the Auburn Premises, LMW have had regard to the Works.

Having regard to the above, we have relied on the LMW Valuation Report in the preparation of our IER. We have set out the valuation outcome under each of the valuation approaches in the table below.

Table 5: Summary of LMW's valuation outcome

	Capitalisation approach	Discounted cash flow approach	Direct comparison approach
Valuation range under each valuation approach	\$ 21,150,000 to \$ 22,900,000	\$ 21,050,000 to \$ 22,750,000	\$ 20,800,000 to \$ 23,000,000
LMW's assessment of the fair market value of the Auburn Premises	\$ 21,000,000 to \$23,000,000		

Source: LMW Valuation Report

The Proposed Acquisition Price, of \$22 million, for the Auburn Premises is within the range of LMW's assessed fair market value of the Auburn Premises.

Change in LMW's assessed valuation outcome

We provided Nick Scali with a full copy of LMW's draft valuation report (**Initial Draft**). Based on their review of the Initial Draft, Nick Scali presented LMW with the following additional information that had not been considered but they believed should have been considered in LMW's assessment of the fair market value of the Auburn Premises, as presented in the Initial Draft:

- the outstanding lease incentives in relation to JCF's lease are to be borne by Scali Consolidated, not Nick Scali. This is consistent with the terms of the Proposed SPA
- the high level of standard of accommodation, given the level of refurbishment recently undertaken by Scali Consolidated
- the lack of appropriate alternative sites within the Auburn vicinity
- the rent to profitability factor of the Auburn Store is lower than other Nick Scali stores, indicating that the current rent paid on the Auburn Store, whilst considered to be within market parameters, is towards the low end of the range.

Having regard to the above factors, LMW made the following alterations to its Initial Draft:

- removed outstanding lease incentives, which were originally treated as a reduction to the assessed fair market value of the Auburn Premises, given that Nick Scali will no longer bear the cost of the outstanding lease incentives in relation to JCF's lease
- removed the requirement of an annual capital sinking fund allowance, having regard to the fact that the Auburn Premises is currently undergoing a significant refurbishment and therefore it is highly unlikely that the property would require any capital expenditure in the short to medium term. LMW has provided for a level of repairs and maintenance as part of the annual outgoings. In addition, LMW has assumed that there will be a requirement for a large scale refurbishment in year nine, which coincides with the end of Nick Scali's initial lease term and the end of JCF's lease
- reduced its adopted capitalisation rate by 0.25%, having regard to the fact that Nick Scali's current lease terms are likely to be at the low end of what is considered to be a "market rent". Accordingly, LMW has factored in the potential for a rental reversion at the end of October 2024 (being the expiry of the initial term) in arriving at the selected capitalisation rate.

The combined impact of the above changes resulted in the assessed valuation outcome (at the midpoint) increasing by approximately 5% or \$1 million.

We are of the view that the additional information provided by Nick Scali, subsequent to LMW's provision of the Initial Draft to Nick Scali, go to matters of fact and therefore LMW has appropriately considered and factored them into the fair market value of the Auburn Premises.

7.3 Funding arrangements

If the Proposed Acquisition is approved, Nick Scali will acquire the Auburn Premises for \$22 million. Management have advised that Nick Scali will incur one-off transaction costs of approximately \$1.35 million, which include stamp duty and professional fees, resulting in a total all-in acquisition cost of \$23.35 million. Management have also advised that the Proposed Acquisition is to be funded by 50% cash¹ and 50% debt.

The table below sets out the impact to Nick Scali's earnings on a pro-forma basis.

Table 6: Estimated financial impact to Nick Scali's earnings (pro-forma 12 months)

Item	Units	Amount
Gross rental income earned from JCF	\$'000	752
Gross rental cost savings connected with the Auburn Store	\$'000	779
Property outgoings	\$'000	(142)
Interest expense in relation to the borrowings required to fund the Proposed Acquisition	\$'000	(409)
Interest income forgone on cash balances used to fund the Proposed Acquisition	\$'000	(292)
Depreciation expense on the Auburn Premises	\$'000	(275)
Net impact to profit before tax	\$'000	413
Tax rate	%	30%
Resulting impact to income tax expense	\$'000	(124)
Net impact to profit after tax	\$'000	289
Number of ordinary shares	No.	81,000,000
Impact to EPS (on an accounting basis)	cents	0.36
Impact to EPS (on a cash basis)	cents	0.41

Source: Management, Deloitte analysis

As set out above, the Proposed Acquisition is expected to result, on a pro-forma basis, in a 0.36 cents increase in earnings per share (**EPS**) on an accounting basis or 0.41 cents increase on a cash basis. We note the following with respect to the above:

- Nick Scali will generate gross rental income of \$752k from JCF based on the current lease agreement in place, which indicates a net rental amount of \$676k per annum, and approximately \$76k of property outgoings
- Nick Scali will no longer incur rental expense in relation to its Auburn Store. The gross rental savings are expected to be \$779k in FY2018
- Nick Scali will incur \$142k in property outgoings, of which \$76k will be recharged back to JCF based on its proportion of lettable GLA (which has been included within JCF's gross rental amount above)
- Nick Scali will incur interest expense of approximately \$409k, which has been calculated based on the level of debt funding required (being approximately \$11.7 million) and an anticipated interest rate of 3.5% given the current economic environment and indicative funding rates received by Management
- 50% of the Proposed Acquisition is to be funded by cash and therefore this represents an opportunity cost of approximately \$292k in relation to interest income² that could have otherwise been earned by Nick Scali. The interest has been calculated based on the level of cash required (being approximately \$11.7 million) and an anticipated cash interest rate of 2.5%

¹ As at 30 June 2017, Nick Scali had \$40 million in cash and cash equivalents. Accordingly, Nick Scali has the financial capability to fund 50% of the Proposed Acquisition with cash.

² This could also be seen as the opportunity cost of investing in Nick Scali's core business. However, given Nick Scali's large cash balance, we have treated this as surplus cash.

- Nick Scali will incur depreciation expense in relation to the building, furniture and fittings. This has been estimated to be approximately \$275k annually, which has been calculated on the assumption that 50% of the Proposed Acquisition Price will be subject to depreciation and the weighted average depreciation rate is anticipated to be 2.5%.

On a net basis, including the corresponding tax impact, the above items are expected to increase profit after tax by \$289k. This equates to a 0.36 cents increase in EPS on an accounting basis and a 0.41 increase in EPS on a cash basis (i.e. excluding depreciation net of the tax shield). Accordingly, the Proposed Acquisition is expected to be EPS accretive.

7.4 Other factors

Under the current lease, Nick Scali has the legal right to occupy the Auburn Store until October 2024 (being the end of Nick Scali's initial term). Beyond this, Nick Scali has two further option periods of five years each. During the two option periods, if the Auburn Premises is purchased by a party other than Nick Scali (the **New Landlord**) and the New Landlord provides Nick Scali with details of a proposed demolition, substantial repair, renovation or reconstruction of the building or any part of the building, the New Landlord may terminate Nick Scali's lease provided that at least 12 months' notice is given to Nick Scali. Accordingly, this could potentially disrupt the operations of the Auburn Store and impact Nick Scali's profitability at that point in time.

We understand that the IBC recently attempted to find alternative properties suitable for the size of the Auburn Store but concluded that there were no suitable properties in the vicinity of the current Auburn Store with high exposure on Parramatta Road, offering a floor space greater than 2,000 square metres and having sufficient parking for that scale of building. Notwithstanding this, the circumstances could be different in the future.

8 Summary and conclusion

8.1 Summary

In our opinion, the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders. In arriving at this opinion, we have had regard to the following factors.

Fairness

The Proposed Acquisition Price is at fair market value

The Proposed Acquisition Price of \$22 million is within the range of LMW's assessed fair market value of the Auburn Premises, which ranges from \$21 million to \$23 million, with a selected point value of \$22 million. Accordingly, it is our opinion that the Proposed Acquisition is fair.

Reasonableness

In accordance with ASIC Regulatory Guide 111, an offer is reasonable if it is fair. On this basis, in our opinion, the Proposed Acquisition is reasonable. We also note the following factors relevant to the reasonableness of the Proposed Acquisition.

The Proposed Acquisition is aligned with Nick Scali's strategy of controlling flagship properties

The Proposed Acquisition is in line with Nick Scali's strategy to acquire properties that its stores currently occupy, particularly flagship properties such as the Auburn Premises. The acquisition of properties contributes to cost efficiencies and therefore increases Nick Scali's profitability, along with ensuring Nick Scali has control of strategic locations.

There is a long lease in place for the First Floor

Scali Consolidated recently entered into a lease with JCF for the First Floor. Under the terms of this lease, JCF will occupy the First Floor for the next 7 years with annual rent reviews of 3%. Based on our review of the LMW Valuation Report, we note that the terms of the lease with JCF are within current market parameters.

If the Proposed Acquisition is approved, Nick Scali will be entitled to a fixed stream of rental income for the next seven years.

Nick Scali has the financial resources to acquire the Auburn Premises

We have had regard to Nick Scali's current cash³ and debt levels and have formed the view that Nick Scali has the financial resources to acquire the Auburn Premises. In addition, we are of the opinion that, unless Nick Scali has plans to deploy the cash elsewhere, acquiring the Auburn Premises would be a better use of its cash balance. We have also had regard to Nick Scali's historical level of earnings and have concluded that Nick Scali is likely to have the ability to service the increased level of debt as a result of the Proposed Acquisition.

The Proposed Acquisition is earning accretive

The Proposed Acquisition is expected to increase Nick Scali's profit after tax by \$0.3 million (pro-forma 12 month). Accordingly, the Proposed Acquisition is anticipated to be EPS accretive, on an accounting and cash basis, to the shareholders of Nick Scali.

The Proposed Acquisition will provide Nick Scali security over the location of the Auburn Store

Nick Scali currently has a lease with Scali Consolidated for the Auburn Store. The initial term is due to expire in October 2024, with two further option periods of five years each. If the Auburn Premises were to be acquired by a party other than Nick Scali, Nick Scali could be asked to relocate its Auburn Store at the end of the second option, which will be October 2034. If the Proposed Acquisition is approved, this will provide Nick Scali with indefinite security of tenure over the location of its Auburn Store.

The Proposed Acquisition will remove potential related party transactions

If the Proposed Acquisition is approved, the Auburn Premises will no longer be owned by Scali Consolidated and therefore this removes the potential for further related party transactions between Nick Scali and Scali Consolidated in relation to the Auburn Premises. However, we do note that this would also be the case if a third party acquired the property.

8.2 Conclusion

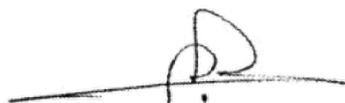
Having regard to the above, we are of the opinion that the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders of Nick Scali.

The report should be read in conjunction with Appendix 1 and Annexure A which contains the LMW Valuation Report.

Yours faithfully



Tapan Parekh
Authorised Representative Number: 461009



Robin Polson
Authorised Representative Number: 461010

³ As at 30 June 2017, Nick Scali had \$40 million in cash and cash equivalents.

Appendix 1: Context to the report

Individual circumstances

We have evaluated the Proposed Acquisition for Non-Associated Shareholders as a whole and have not considered the effect of the Proposed Acquisition on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Acquisition from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Acquisition is fair and reasonable to Non-Associated Shareholders. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of Nick Scali and is to be included in the Explanatory Memorandum to be given to Non-Associated Shareholders for approval of the Proposed Acquisition in accordance with ASX Listing Rule 10. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Explanatory Memorandum in their assessment of the Proposed Acquisition outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Nick Scali, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Acquisition.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Nick Scali and its officers, employees, agents or advisors (as set out below in 'Sources of Information'). Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Nick Scali management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Nick Scali and its officers, employees, agents or advisors, Nick Scali has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Nick Scali may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Nick Scali and its officers, employees, agents or advisors or the failure by Nick Scali and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Acquisition.

Deloitte Corporate Finance has also relied on the LMW Valuation Report. Deloitte assessed the professional competence and objectivity of LMW and believe the work performed is appropriate and reasonable. Deloitte has received consent from LMW for our reliance on and inclusion of their opinion in the preparation of this report.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Tapan Parekh, B.Bus, M.Comm, CA, F.Fin and Robin Polson, B.Comm, G. Dip. App Fin, FINSIA. Each have many years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- Nick Scali proposes to issue an Explanatory Memorandum in respect of the Proposed Acquisition of the Auburn Premises from Scali Consolidated
- the Explanatory Memorandum will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Memorandum (draft Explanatory Memorandum) for review

- it is named in the Explanatory Memorandum as the 'independent expert' and the Explanatory Memorandum includes its independent expert's report in Section A of the Explanatory Memorandum.

On the basis that the Explanatory Memorandum is consistent in all material respects with the draft Explanatory Memorandum received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Memorandum in the form and context in which it is so named, to the inclusion of its independent expert's report in Section A of the Explanatory Memorandum and to all references to its independent expert's report in the form and context in which they are included, whether the Explanatory Memorandum is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of Explanatory Memorandum and takes no responsibility for any part of the Explanatory Memorandum, other than any references to its name and the independent expert's report as included in Section A.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- the Proposed SPA
- audited financial statements for Nick Scali for the years ending 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017
- LMW Valuation Report, assessment and inspection dated 22 June 2017
- signed Lease Agreement with Nick Scali for the Ground Floor dated 28 June 2017
- property register for comparable Nick Scali stores
- unaudited statement of profit and loss, broken down by each Nick Scali store, for the years ending 30 June 2014, 30 June 2015, 30 June 2016 and 30 June 2017
- CKC Rental Assessment Report dated April 2017
- company website for Nick Scali.

In addition, we have had discussions and correspondence with certain directors and executives, including John Ingram, Chairman and Kevin Fine, CFO and Company Secretary in relation to the above information and to current operations and prospects.

Annexure A: LMW Valuation Report

Valuation Report



Property 222-246 Parramatta Road, Auburn NSW 2144.

Prepared for Nick Scali Limited with reliance given to Deloitte Corporate Finance Pty Limited.

Purpose Independent property valuation for Acquisition Purposes Only.

Applicant Nick Scali.

Date **Assessment date** 22 June 2017.
Inspection date 22 June 2017.

Client ref Nick Scali Auburn.

LMW reference 1706003992.



LandMark White (Sydney) Pty Ltd
ABN 12 150 089 255

Level 15, 55 Clarence St, Sydney NSW 2000
GPO Box 3359, Sydney NSW 2001 Australia

Telephone: (02) 8823-6300
Facsimile: 1300 727-684

Synopsis.....	1
1.1 Executive summary.....	1
1.2 Risk profile.....	2
1.3 Income projection.....	3
1.4 Performance summary.....	3
Introduction.....	6
2.1 Instructions.....	6
2.2 Critical assumptions.....	6
2.3 Definition of fair market value.....	7
Land Particulars.....	8
3.1 Title details.....	8
3.2 Statutory assessment of land/site value.....	8
3.3 Land description, dimensions and area.....	8
3.4 Planning.....	9
3.5 Environmental issues.....	10
3.6 Locality and surrounding development.....	11
3.7 Road system, access and exposure.....	11
3.8 Services and amenities.....	11
Improvements.....	12
4.1 General.....	12
4.2 Construction details.....	12
4.3 Site improvements.....	12
4.4 Gross Lettable Area.....	12
4.5 Accommodation “as if complete”.....	12
4.6 On-site parking.....	14
4.7 Building services.....	14
4.8 Presentation, condition & utility.....	14
Market Comment.....	15
5.1 Economic overview.....	15
5.2 Market overview.....	16
Income Analysis.....	19
6.1 Tenancy profile.....	19
6.2 Tenancy analysis.....	19
6.3 Lease structures.....	19
6.4 Tenancy schedule.....	21
6.5 Outgoings assessment.....	22
6.6 Rental evidence.....	22
6.7 Gross income assessment – Rent Analysis.....	24
6.8 Net income assessment.....	24
6.9 Cash flow profile.....	25
Sales Evidence.....	26
7.1 Sales evidence.....	26
Rationale.....	29
8.1 General.....	29
8.2 Sales history.....	29
8.3 Highest and best use.....	29
8.4 Valuation inputs and assumptions.....	29
8.4.1 Allowances.....	29
8.4.2 Reversions.....	30
8.5 Capitalisation method.....	30
8.6 Discounted cash flow analysis.....	32
8.6.1 Cash flow inputs.....	32

8.6.2	Discount rate	32
8.6.3	Terminal capitalisation rate	32
8.6.4	Cash flow	33
8.6.5	Net present value	34
8.7	Direct comparison method	34
8.8	Selling and letting up periods	35
8.9	GST implications	35
Summary Analysis		36
9.1	Reconciliation of approaches and adopted value	36
Valuation		37
Annexures		38
1.	Letter of instruction	
2.	Title search	
3.	Deposited Plan	

IMPORTANT: All data provided in this summary is wholly reliant on and must be read in conjunction with the information provided in the attached report. It is a synopsis only designed to provide a brief overview and must not be acted on in isolation. The Valuer/Firm (in addition to the principal valuer) has no Potential Conflict of Interest or Pecuniary Interest (real or perceived) relating to the subject property.

For the purpose of this report "LMW" means the company identified on the front of this report.

1.1 Executive summary

Executive summary					
Property address	222-246 Parramatta Road, Auburn NSW 2144.				
Prepared for	Nick Scali Limited with reliance given to Deloitte Corporate Finance Pty Limited.				
Applicant	Nick Scali.				
Purpose	Independent property valuation for Acquisition purposes only.				
Description of property	The subject property comprises a circa 1990 bulky goods showroom building being constructed over 2 levels plus basement parking for 97 cars. The upper level and facade are currently being fully refurbished to a high standard.				
Title searched	27 June 2017. Refer to section 3.1 for encumbrances noted on title.				
Registered proprietor	Scali Consolidated Pty Limited.				
Title reference/RPD	Lot 100 in Deposited Plan 800560 being all that property described within Folio Identifier 100/800560.				
Town planning	Zoned "B6 Enterprise Corridor" under Auburn Local Environmental Plan 2010.				
Interest valued	Freehold.				
Basis for assessment	Fair Market Value – Subject to existing and/or proposed lease(s) – As If Complete.				
Site area	4,761 square metres based on Deposited Plan 800560.				
Gross Lettable Area (GLA)	5,480 square metres.				
Primary approach	Capitalisation.				
Tenancy profile	Occupancy	100.00%	No. of Tenancies (exc. cars)	2	
Gross income	Passing	\$1,514,186 pa	Market	\$1,514,186 pa	
Outgoings		-\$139,351 pa		-\$139,351 pa	
Net income	Passing	\$1,374,835 pa	Market	\$1,374,835 pa	
Current vacant area		0 m ²			
Budget outgoings		-\$139,351 pa		-\$25.43/m ² pa	
Capitalisation approach					
Analysis based on adopted value	Cap rate	6.25%	Reversion Horizon	24 months	
	Initial yield	6.25%	Reversionary yield	6.25%	
	Analysed market yield	6.25%	Rate/m ² GLA	\$4,015/m ²	
Capital adjustments	Nil.				
DCF assumptions and analysis					
Assumptions	Letting fees	6.50%	Letting up period	6 months	
	Renewal likelihood	75.00%	Incentives	4.69%	
	Discount rate	7.75%	Make good/m ²	\$20	
Growth Analysis	Expenses avg. 10yrs	2.37%	Gross rental avg. 10yrs	3.17%	
	IRR	7.66%	Terminal yield	6.75%	
Lease expiry profile (by gross income)	Current	31-05-18	31-05-19	31-05-20	31-05-21
	-	-	-	-	-
Weighted average lease expiry – occupied and vacant areas	Area	7.19 years		Income	7.21 years

Executive summary <i>cont'd</i>	
Major issues	<p>The property is currently being refurbished to a high standard, with improvements including the installation of a common ground level entry foyer, a new lift servicing all levels, new escalators to the upper level, new façade, new building signage and an extension of the upper level.</p> <p>As instructed, this valuation has been completed on an “as if complete” basis of the current works.</p> <p>Whilst I have been advised the expected commencement date for the upper level lease is 29 August 2017, as this report has been prepared on an “as if complete” basis, I have assumed the lease for the upper level commenced 30 May 2017 and that the fitout and rent free incentives for Level 1 have been paid in full.</p> <p>It is highlighted the Ground Level lease is between related parties, however as instructed I have treated this lease as arms-length and have not allowed letting up allowances for this component.</p> <p>It is highlighted that after my issuance of a draft report, I was provided with further material information relating to the Vendor payment of the outstanding lease incentives of the John Cootes Furniture tenancy, the rent to profitability factor of the Nick Scali tenancy, the lack of appropriate alternate sites and the standard of accommodation upon completion. Upon deliberation of these material facts, I consider a reduction of my previously adopted capitalisation rate by 0.25% to be appropriate in the current market, which resulted in my adopted valuation figure being approximately 5% above my initial draft figure.</p>
Date of assessment	22 June 2017.
Fair market value	<p>\$22,000,000 excluding GST, subject to existing and/or proposed lease(s) – As If Complete.</p> <p>In order to comply with ASIC Guidelines, I consider a Fair market value range of between \$21,000,000 and \$23,000,000, excluding GST to be appropriate.</p>
Valuer	Jarrold Piltz MRICS AAPI Certified Practising Valuer Director

This executive summary is a précis of the contents of the following valuation report. The valuation assessment and report is contingent upon a number of conditions, qualifications and critical assumptions which are fully described and set out in the body of this report.

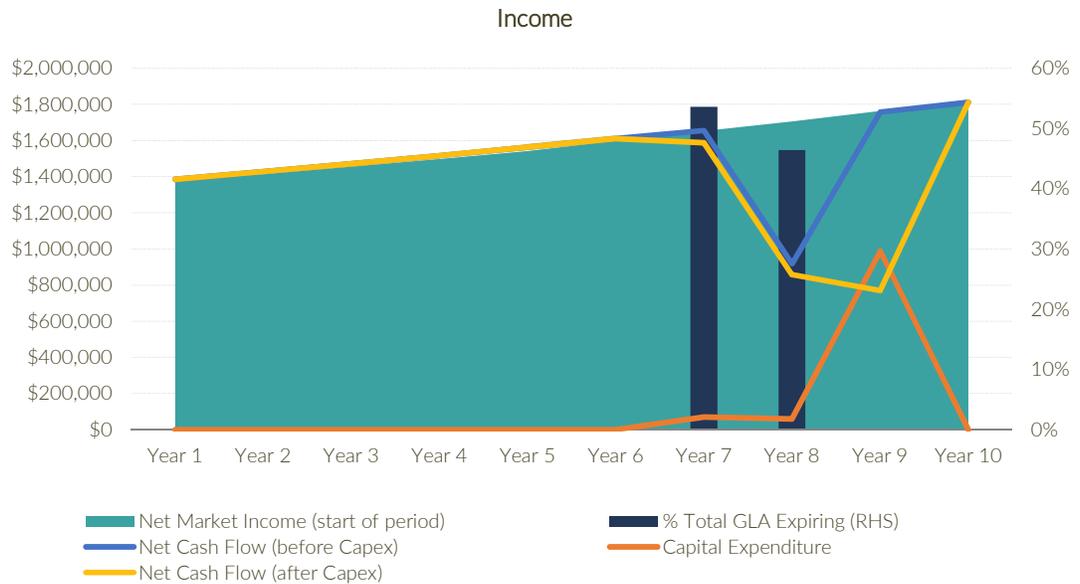
It is essential that before the addressee relies on this valuation, they read the report in its entirety, including any Annexures.

Should the addressee be or become aware of any item or issues that cast doubt on, refute, oppose or are in conflict with the conditions, qualifications or assumptions contained within this report, they must notify LMW in writing so that any conflicts may be considered and if appropriate, an amended report issued.

1.2 Risk profile

	Low	Low/Medium	Medium	Medium/High	High
Cash flow					
Asset					
Market					
Environment					
Management					

1.3 Income projection



1.4 Performance summary

Cash flow performance

- Graph of **Lease Expiry Profile** based on the floor area and rental income.



WALE

The weighted average lease expiry (WALE) based on income is **7.21** years.

Expiry comment

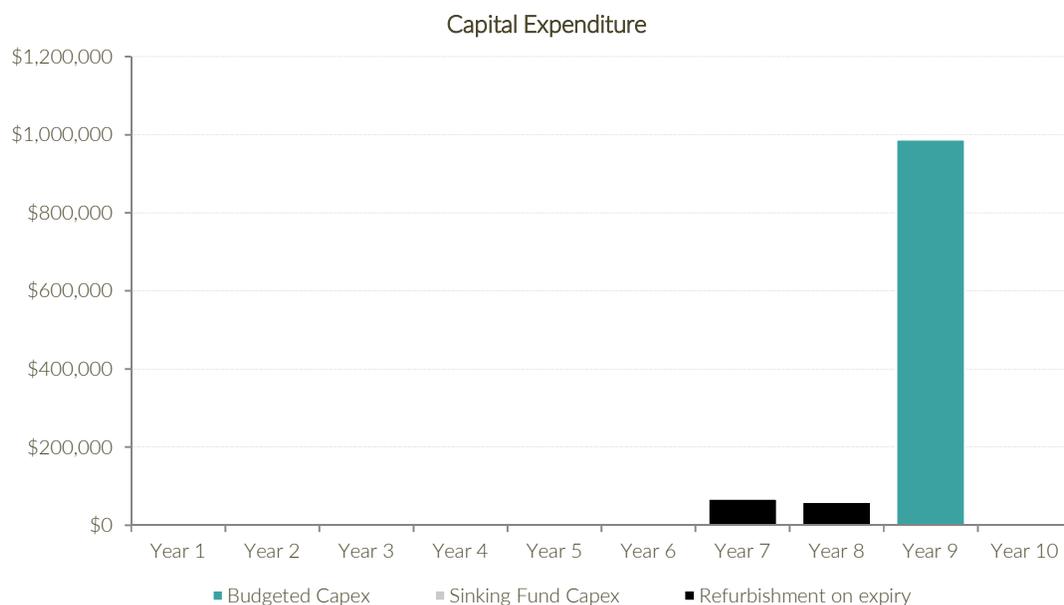
I note the Ground Level Nick Scali tenancy provides 2 further option periods of 5 years each.

- Five year income as per cash flow

	1	2	3	4	5
Year ending	May 2018	May 2019	May 2020	May 2021	May 2022
Net market income fully leased	\$1,374,835	\$1,414,214	\$1,454,341	\$1,497,056	\$1,542,354
Net passing income fully leased	\$1,385,371	\$1,427,943	\$1,471,686	\$1,516,628	\$1,563,024
Capital expenditure	-	-	-	-	-
Net income (after allowances and capital expenditure)	\$1,385,371	\$1,427,943	\$1,471,686	\$1,516,628	\$1,563,024
Expiry (by area)	-	-	-	-	-

- Allowances

Allowances										
Year ending	31-05-18	31-05-19	31-05-20	31-05-21	31-05-22	31-05-23	31-05-24	31-05-25	31-05-26	31-05-27
Vacancy Allowances										
Outstanding incentives	-	-	-	-	-	-	-	-	-	-
Future incentives	-	-	-	-	-	-	-	\$443,288	-	-
Leasing costs	-	-	-	-	-	-	-	\$122,939	-	-
Refurbishment on expiry	-	-	-	-	-	-	\$68,926	\$60,231	-	-
Total	-	-	-	-	-	-	\$68,926	\$626,458	-	-
Capital Expenditure										
Capital budget	-	-	-	-	-	-	-	-	\$987,989	-
Total	-	-	-	-	-	-	-	-	\$987,989	-



Market incentives	Typical for this asset in the form of a rent free and/or fitout incentive.
Tenant quality	Good quality, name tenants.
Lease-up	In the event a tenancy in the subject became vacant, I envisage a letting up period of up to 6 months.
Lease documents	I have sighted copies of the lease documents.
Outgoings	Outgoings are \$139,351 per annum or \$25.43/m ² reflecting 9.20% of gross income which is at a reasonable level.
Related party lease	It is highlighted the Ground Level lease is between related parties, however as instructed I have treated this lease as arms-length and have not allowed letting up allowances for this component.
Cash flow rating	Low/Medium

Asset performance

Site quality	Generally regular shaped allotment being suitable for the current use.
Flooding	The subject is not noted as being within a Flood Planning Area under Auburn Local Environmental Plan 2010.
Frontage	The building has a large frontage to Parramatta Road of 100 metres, providing prominent exposure.
Access quality	Good.
Exposure	Good levels of exposure are provided, being situated on a corner location with a 100 metre frontage to Parramatta Road.
Building design and construction	Functional and efficient.
Facilities and services	The property "as if complete" will provide a modern, functional and efficient design, offering easy access including disabled access to all levels including the basement car park.
Current use	Appropriate for the current use.
Parking	An undercover, basement level car park is provided, which will offer parking for 97 cars as shown on the building plans provided. Pedestrian access to the upper levels will be available via a lift along with a staircase.
Asset Rating	Low/Medium

Market performance

Market direction	The market has strengthened since 2013.
Buyer profile	<p>The current purchaser profile for bulky goods investments within this price range and in this locality is characterised by private investors, boutique equity funds and larger property syndicates.</p> <p>Given the property provides a prominent land holding with good levels of exposure, it is also considered to appeal to strategic investors/developers would hold the property in the medium to long term under the current lease agreements and look to redevelop once vacant possession was achievable.</p>
Marketability	Good.
Saleability	Given a continuation of the market conditions that were experienced leading up to the date of valuation and a competent marketing campaign reflecting the nature of the property, I consider the property is saleable at valuation in a marketing period of up to six months.
Market rating	Low/Medium

Environment

Environmental issues	None apparent.
Uses	Bulky goods showroom.
Environmental checklist	The environmental checklist has been completed.
Asbestos	I have not been issued with an Asbestos Materials Report and though no obvious signs of asbestos were noted during my inspection the valuation is subject to there being no areas of asbestos contamination affecting Workplace Health and Safety requirements.
Environmental Rating	Low/Medium

Management risk

Management effort	The property is currently owner managed which is considered appropriate for the scale of the property.
Management Rating	Low/Medium

2.1 Instructions

Instructions				
Instructing party	Nick Scali Limited with reliance given to Deloitte Corporate Finance Pty Limited.			
Contact	Mr Tapan Parekh.			
Client reference	Nick Scali Auburn.			
Prepared for	Nick Scali Limited with reliance given to Deloitte Corporate Finance Pty Limited.			
Purpose	Independent property valuation for Acquisition Purposes Only.			
Interest valued	Freehold.			
Basis for assessment	Fair Market Value - Subject to existing and/or proposed lease(s) - As If Complete.			
Date of assessment	22 June 2017.			
Date of inspection	22 June 2017.			
Report compliance	Australian Security & Investment Commission	✓	Yes	No
	Australian Property Institute	✓	Yes	No

A copy of the Letter of Instruction is annexed.

2.2 Critical assumptions

- All investigations have been conducted independently and without influence from a third party in any way
- Any objective information, data or calculations set out in the Valuation will be accurate so far as is reasonably expected from a qualified and experienced valuer, reflecting due skill, care and diligence (except where the information, data or calculation originates from a third party source).
- In undertaking my valuation, I have relied upon various financial and other information submitted by Nick Scali Limited. Where possible, within the scope of my retainer and limited to my expertise as a valuer, I have reviewed this information including by analysis against industry standards. Based upon that review, I have no reason to believe that the information is not fair and reasonable or that material facts have been withheld. However, my enquiries are necessarily limited by the nature of my role and I do not warrant that I have identified or verified all of the matters which a full audit, extensive examination or "due diligence" investigation might disclose. This valuation is conditional upon the information supplied being correct.
- With respect to lease details, I note that all proposed lease documents have been sighted. Should there be any variation, I reserve the right to review my valuation. This valuation is conditional upon there being no side agreements in relation to incentives whether it be by way of rental abatements, fit-out contributions or cash payments. The right to any rental guarantee, security deposit, bank guarantee or any other form of guarantee provided in respect to any leases to which the property is subject will pass to a purchaser of the property. The Mortgagee should satisfy itself that the income payable by all tenants within the building as stated in the Tenancy Schedule provided and Lease documentation is actually being remitted to the Lessor and should there be any variation, I reserve the right to review my valuation.
- I have relied upon the Gross Lettable Area indicated on the Building Plans prepared by Paul Tilse Architects, dated 15 December 2016. Should any subsequent surveys indicate a variation to the areas adopted within, the matter should be referred to me for review of the valuation as I deem appropriate.

- It should be noted that in the case of advice provided in this report which is of a projected nature, I must emphasise that specific assumptions have been made which appear reasonable based upon current market sentiment and forecasts. It follows that any one of the associated assumptions may change over time and no responsibility can be accepted in this event. The value performance indicated within this report is an assessment of the potential trend in value. Accordingly, the indicated figures should not be viewed as absolute certainty.
- This valuation report does not purport to be a site or structural survey of the improvements, nor was any such survey undertaken. This valuation is conditional upon the improvements being completed in a proper and workmanlike manner and that upon completion, detailed reports with respect to the structure and service installations of the improvements would not reveal any defects or inadequacies requiring significant expenditure.
- As the valuation has not had any regard to the vendor's residency status or availability of a Clearance Certificate, implications if any, in respect to the Foreign Purchaser Capital Gains Tax have not been assessed.
- Unless stated otherwise in the Land Particulars section, no soil tests or environmental studies have been made available. Therefore, it should be noted that the valuation is subject to there being no surface or sub-surface soil problems including instability, toxic or hazardous wastes, toxic mould, asbestos or building material hazards in or on the property that would adversely affect its existing or potential use or reduce its marketability. Should any problems be known or arise, then the valuation should be referred to LMW for review as LMW deems appropriate.

I am not an expert in this regard and if more detailed advice is required, an environmental consultant should be retained.

- **Verifiable assumptions** relate to environmental issues, structural integrity of the improvements, compliance with applicable building regulations, condition of building services, zoning and encroachments, and can be confirmed by obtaining appropriate documentation relating to each.
- **Assumptions based upon opinion** where included are detailed within the Market Comment, Leasing and Sales Evidence and Rationale sections of the report.

Should any of the assumptions upon which my valuation assessment is made prove to be incorrect or inaccurate, this report should be referred to LMW for reassessment.

2.3 Definition of fair market value

"Fair market value is the amount at which assets or liabilities would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell".

My ascribed value is provided on the basis that the property will be offered for sale in an orderly fashion for a reasonable period with a formal marketing campaign by a recognised commercial agent.

3.1 Title details

Registered proprietor/owner	Legal description	Encumbrances and interests
Scali Consolidated Pty Limited.	Lot 100 in Deposited Plan 800560 being all that property described within Folio Identifier 100/800560.	Please refer to Annexure 2 for details.

The lease of Substation Premises No. 7051, together with a right of way, noted on the Folio Identifier as 1868221 has been searched and refers to a right of way and substation premises having a total site area of 23.2m² being situated along the Kihilla Road frontage, approximately 20 metres south of Parramatta Road. This lease and right of way has been considered and reflected within my ascribed value.

Caveat noted on the Folio Identifier as AM215605 has been searched and has been placed by JCF Management Pty Limited and relates to the lease for Level 1 to John Cootes Furniture.

There is no *Administrative Advice* or *Unregistered Dealings* recorded on Title. A copy of the current Title Search is annexed and these detail all encumbrances and interests noted on Title.

Overall, there are considered to be no onerous covenants or interests reported on Title that are considered to adversely affect the value, marketability and continued utility of the property. If there are any encumbrances, encroachments, restrictions, leases or covenants which are not noted in this report, they may affect the assessment of value. If such matters are known or discovered, I should be advised and asked as to whether they affect my assessment of value.

Details of the occupational leases are noted under Section 6.3 Lease Structures.

3.2 Statutory assessment of land/site value

Effective date	Value
1 July 2016	\$3,700,000
1 July 2015	\$2,980,000
1 July 2014	\$2,840,000
3 year average	\$3,173,333

These valuations are used for rating and taxation assessments and are quoted here for information purposes only.

3.3 Land description, dimensions and area

Land descriptions	
Identification	The land has been identified by reference to building signage, street numbers and the Deposited Plan being situated on the south-eastern corner of the intersection of Parramatta Road and Kihilla Road, Auburn.
Topography	Generally regular shaped allotment being suitable for the current use.
Flood status	The subject is not noted as being within a Flood Planning Area under Auburn Local Environmental Plan 2010.

The flooding information noted has been obtained from the NSW Department of Planning and Environment website. This information has been relied upon in my assessment of value and no responsibility is accepted for the accuracy of the flooding information provided. Should the information prove incorrect in any material respect, the matter should be referred to me for review of the valuation as I deem appropriate.

Boundary	Approximate dimensions
Parramatta Road frontage	104.15 metres.
Kihilla Road frontage	40.555 metres.
Eastern boundary	51.365 metres.
Southern boundary	103.625 metres.
Site area	4,761 square metres based on Deposited Plan 800560.

A copy of the Deposited Plan is annexed.

Whilst I have physically identified the boundaries of the subject property on inspection, I am not a Qualified Surveyor and no warranty can be given without the benefit of a formal identification survey. This report is conditioned upon there being no encroachments to or upon the subject land which require rectification or compensation.

3.4 Planning

Planning	
Planning scheme	Auburn Local Environmental Plan 2010.
Zoning	Zoned "B6 Enterprise Corridor".
Permissible uses	<p>1 Objectives of zone</p> <ul style="list-style-type: none"> To promote businesses along main roads and to encourage a mix of compatible uses. To provide a range of employment uses (including business, office, retail and light industrial uses). To maintain the economic strength of centres by limiting retailing activity. <p>2 Permitted without consent</p> <p>Nil.</p> <p>3 Permitted with consent</p> <p>Building identification signs; Bulky goods premises; Business identification signs; Business premises; Community facilities; Food and drink premises; Garden centres; Hardware and building supplies; Hotel or motel accommodation; Kiosks; Landscaping material supplies; Light industries; Markets; Neighbourhood shops; Passenger transport facilities; Plant nurseries; Roads; Timber yards; Vehicle sales or hire premises; Warehouse or distribution centres; Any other development not specified in item 2 or 4.</p> <p>4 Prohibited</p> <p>Agriculture; Air transport facilities; Animal boarding or training establishments; Boat building and repair facilities; Boat sheds; Camping grounds; Caravan parks; Cemeteries; Charter and tourism boating facilities; Correctional centres; Crematoria; Eco-tourist facilities; Electricity generating works; Environmental facilities; Exhibition homes; Exhibition villages; Extractive industries; Farm buildings; Forestry; Heavy industrial storage establishments; Highway service centres; Home occupations (sex</p>

Planning

	services); Industrial training facilities; Industries; Marinas; Mooring pens; Moorings; Open cut mining; Port facilities; Recreation facilities (major); Research stations; Residential accommodation; Restricted premises; Retail premises; Rural industries; Sewerage systems; Sex services premises; Signage; Tourist and visitor accommodation; Waste or resource management facilities; Water recreation structures; Water supply systems; Wharf or boating facilities. The current use appears to accord with the permissible uses under the zoning.
Permissible floor space ratio (FSR)	1:1 for general development, 1.5:1 for bulky goods premises, entertainment facilities, function centres and registered clubs, and 3:1 for office premises and hotel or motel accommodation.
Approximate proposed FSR "as if complete"	1.15:1.

The planning information noted has been obtained from the NSW Department of Planning and Environment website. This information has been relied upon in my assessment of value and no responsibility is accepted for the accuracy of the planning information provided. Should the information prove incorrect in any significant respect, the matter should be referred to me for review of the valuation as I deem appropriate.

3.5 Environmental issues

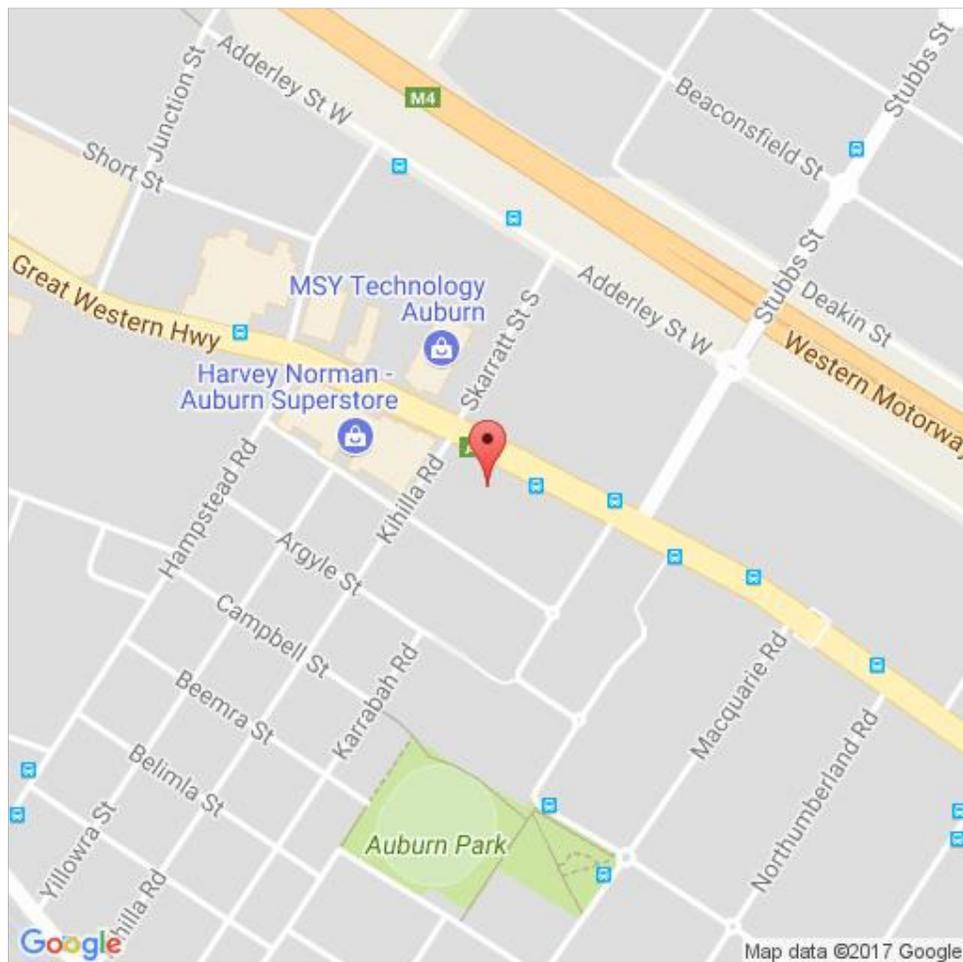
Issues

Current use and commencement	Bulky goods furniture showroom.
Existing issues raising concern	None.
Uses identified on API Guidance Note 1	None.
Previous uses	Unknown.
Environmental report provided	No, an environmental report has not been provided.
Environmental checklist	The environmental checklist has been completed.
EPA search	A search of the contaminated land database at http://www.epa.nsw.gov.au/prclmapp/searchregister.aspx no listing for the subject property. This search is of a database maintained by the Environmental Protection Agency under Part 5 of the Contaminated Land Management Act, 1997. The database is not a record of all contaminated land in NSW, but rather of all written notices issued by the EPA under the Act relating to the investigation or remediation of site contamination that presents a significant risk of harm. 'Significant risk of harm' refers to the status of a site where the contamination is considered to be serious and requires EPA regulatory intervention.

3.6 Locality and surrounding development

The property forms part of the established Auburn bulky goods retail precinct which is centred along Parramatta Road extending from Silverwater Road to James Ruse Drive.

Neighbouring development is mainly bulky goods retail in character ranging from smaller family businesses in older style buildings to nationally known operators such as Harvey Norman and Officeworks. Primewest Auburn Megamall takes up the whole block from Rawson Street to Junction Street and has approximately 30 tenancies including Freedom Furniture, Fantastic Furniture, The Good Guys, Snooze and By Design.



3.7 Road system, access and exposure

Parramatta Road is a major city thoroughfare linking Sydney and Parramatta, and in the vicinity of the subject it is a six lane divided carriageway. Kahilla Road is a local roadway. Good levels of exposure are provided, being situated on a corner location with a 100 metre frontage to Parramatta Road.

It is noted right turns are permissible from Kihilla Road from Parramatta Road when travelling in an easterly direction, and as such the property is accessible from both directions along Parramatta Road.

3.8 Services and amenities

Electricity, sewerage, town water and telephone are all available for connection.

4.1 General

The subject property comprises a circa 1990 bulky goods showroom building being constructed over 2 levels plus basement parking for 97 cars.

The property is currently being refurbished to a high standard, with improvements including the installation of a common ground level entry foyer, a new lift servicing all levels, new escalators to the upper level, new façade, new building signage and an extension of the upper level at an advised cost of approximately four million dollars. I have been advised that these works are expected to be completed by 31 July 2017 with a handover date of 1 August 2017. As instructed, this valuation has been completed on an "as if complete" basis of the current works.

4.2 Construction details

Item	Construction
Levels	Two storey plus basement parking.
Footings	Un sighted.
Floors	Concrete.
External walls	Render and cladding.
Internal walls	Render and plasterboard.
Ceilings	Suspended grid panel.
Design	Functional and efficient

4.3 Site improvements

Item	Description
Landscaping	Adequate.
Signage	On building signage.

4.4 Gross Lettable Area

I have relied upon the gross lettable area indicated on the Building Plans prepared by Paul Tilse Architects, dated 15 December 2016.

Level	Tenant	GLA m ²
G - G	Nick Scali	2,543
L1 - L1	John Cootes Furniture	2,937
Total		5,480

Should any subsequent surveys indicate a variation to the areas adopted within, the matter should be referred to me for review of the valuation as I deem appropriate.

4.5 Accommodation "as if complete"

On completion, a formal common entry will be provided to the ground level fronting Parramatta Road, offering access to both the ground and upper level tenancies.

The ground level will be accessed directly from the foyer and will provide a good standard of predominantly open plan showroom accommodation with vinyl floor coverings, rendered brick and plasterboard walls and a suspended grid panel ceiling with fluorescent lighting and ducted air-conditioning. Separate male, female and disabled amenities are provided, along with a staff lunch room.

The upper level will be accessed via escalators, stairs and a lift from within the formal entry foyer and will provide predominantly open plan showroom accommodation along with separate male, female and disabled amenities plus with a small store room being accessed via a goods lift from the ground level.

A common property loading dock is situated towards the Kihilla Road frontage, providing elevated loading dock accommodation.

222-246 Parramatta Road,
Auburn NSW 2144



Artists impression of completed Parramatta Road frontage



Artists impression of corner of Parramatta Road and Kihilla Road frontage



Ground level accommodation



Ground level accommodation



Level 1 accommodation



Level 1 accommodation



Loading dock



Basement parking

4.6 On-site parking

A basement level car park is provided, which will offer parking for 97 cars as shown on the building plans provided. Pedestrian access to the upper levels will be available via a lift along with a staircase.

4.7 Building services

The following services will be provided to the building:

- Air-conditioning throughout.
- Lift access to all levels of the property.
- Escalator access between Ground Level and Level 1.
- Loading dock and goods lift to the upper level.

4.8 Presentation, condition & utility

Based upon my inspection and information provided, the following observations have been made with respect to the presentation, condition and functional utility of the improvements.

- The property "as if complete" will provide a modern, functional and efficient design, offering easy access including disabled access to all levels including the basement car park.
- The property has good exposure to Parramatta Road having a 100 metre frontage and is easily accessible with a secondary frontage to Kihilla Road.
- The property has basement level parking for 97 cars.
- Good position and exposure within an established bulky goods location.

5.1 Economic overview

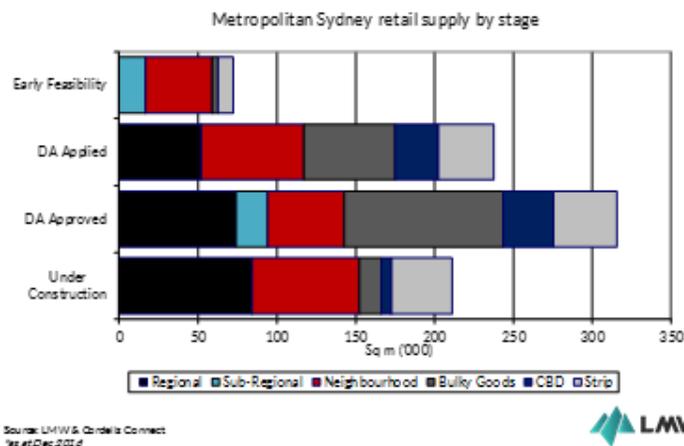
NSW economic indicators	Trend	Comment	<i>ECONSW0216</i>
Interest rates		At its meeting on the 6 th of June 2017, the Reserve Bank Board kept the Cash Rate unchanged at 1.50%. This is the lowest official rate on record.	
Inflation		The All Groups Sydney CPI increased by +0.36% in the March 2017 quarter, rising +2.39% from the March quarter of 2016 and +1.70% in the year to date, this is within the Reserve Bank's target rate of 2-3% per annum. The weighted average national figure of eight capital cities increased by +2.10% from the March quarter of 2016.	
Economic growth		The Australian economy increased by +1.1% in seasonally adjusted terms over the December quarter 2016 to show growth of 2.4% on an annual basis.	
Business conditions		The NAB Business Survey reported business conditions in NSW increased to +17 index points in April 2017. Business confidence increased at +7 index points over the same period.	
Retail trade		Seasonally adjusted NSW retail turnover increased by +0.12% in April 2017 from the previous month. Annual retail turnover in the year to date grew by 3.59% in seasonally adjusted terms.	
Unemployment		The seasonally adjusted unemployment rate in NSW decreased marginally to 4.7% in April 2017, while the 12-month average rate was 5.0%. The participation rate decreased marginally to 63.0% while the 12-month average was 63.5%.	
Consumer sentiment		The Westpac-Melbourne Institute of Consumer Sentiment fell by 1.1% from 99.0 in April 2017 to 98.0 in May 2017. An index reading above 100 indicates that optimism outweighs pessimism among consumers.	
Building approvals		The total number of dwelling units approved in NSW increased by 12.03% in April 2017 from the previous month in seasonally adjusted terms. The number of approvals have decreased by -0.46% in the year to date.	
Housing finance		The number of owner occupied housing finance commitments in NSW increased 0.34% in seasonally adjusted terms in March 2017 from the previous month and fell by -1.23% in the year to date. The number of approvals for first home buyers in NSW decreased by -5.97% over the same 12-month period.	

The arrows highlighted in the table above are considered the most relevant economic indicators which affect the subject property.

5.2 Market overview

NSW bulky goods retail outlook			RETBGCO022	
Indicator	FY2015-16	FY2016-17	Forecast	FY2017-18
GDP growth (Aust)	2.66%	1.82%	GDP growth	2.77%
GSP growth NSW	3.47%	1.96%	GSP growth	2.54%
Retail turnover (NSW)	3.64%	1.37%	Retail turnover	3.76%
Avg prime net face rent	\$303	\$301	Avg prime net face rent	↔
Avg annual growth net face rent	-0.62%	+1.66%	Avg prime yield	↓
Avg prime yield	8.09%	7.13%		

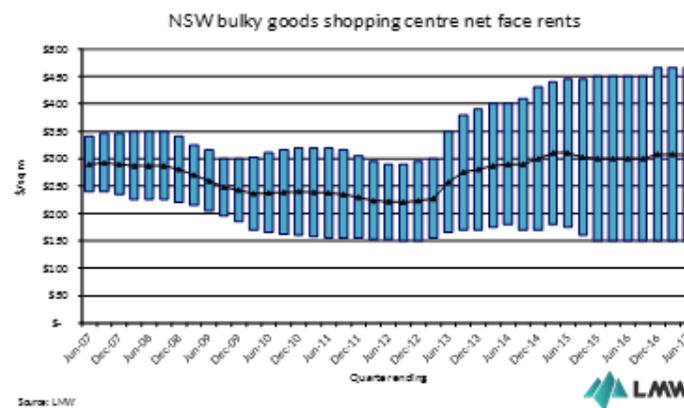
Source: Access Economics December 2016 & LMW



Supply

As at CY2016, bulky goods retail represents 21.0% of the total retail supply projected for metropolitan Sydney, with 176,209m² in the pipeline.

Of this space, 8.0% is currently under construction, 57.3% is DA approved, 32.7% is awaiting approval and 2.1% is in the early feasibility stages.

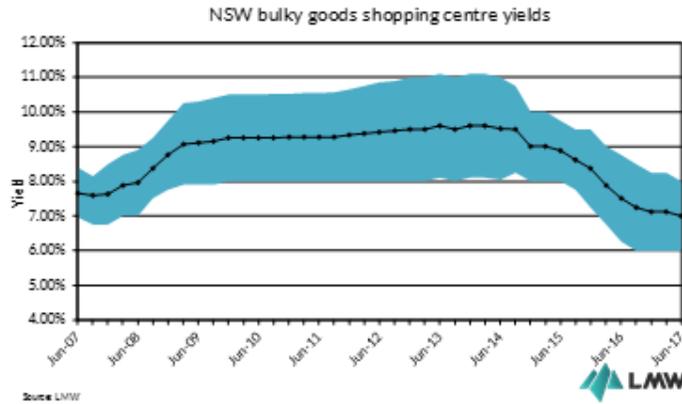


Rent

Rents across Bulky Goods centres in NSW were slow to recover from the GFC and are outperforming past measures. Average net face rents are currently sitting at \$308/m².

Retail spending growth in NSW has begun recovering from the lows of 2012 when consumers were lowering household debt in response to the GFC since 2008. However spending in retail has decreased marginally in the past 24 months despite record low interest rates and strong housing demand spilling over to bulky household goods and construction materials.

NSW bulky goods retail outlook

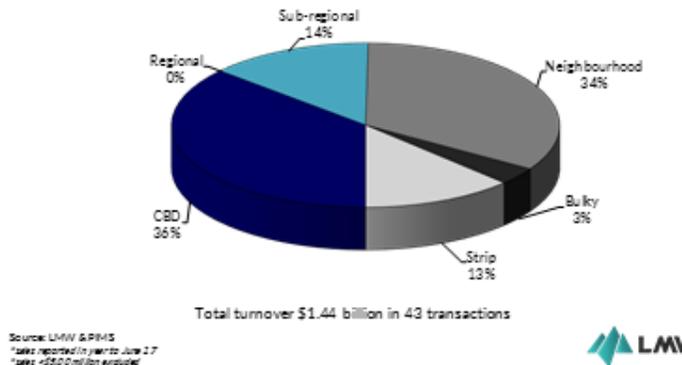


Yields

While there is evidence of 6.00% yields this is limited to properties tenanted by high quality national operators on long term leases, between 2009 to 2014 there has been a clear separation between yields for prime and secondary grade stock although this is has narrowed over the last 24 months.

Yields have firmed as a result of a significant lag following the current housing and construction boom, with an overall trend towards yield compression in large format retail centres, whilst NSW retail trading figures have indicated decreasing demand for household goods and bulky items.

Metropolitan Sydney retail transactions by retail type year to June 17

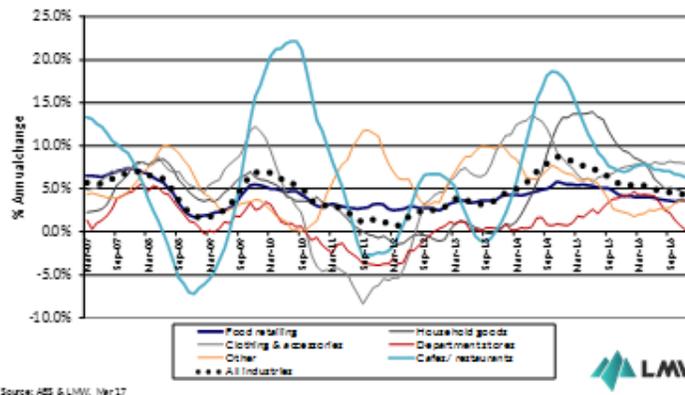


Investment market

In the year to June 2017, retail sales above \$5.0 million across Metropolitan Sydney totalled \$1.44 billion between 43 transactions. Neighbourhood retail sales made up 33.7% of turnover; sub-regional retail 13.7%; regional retail 0%, CBD 36.5% and strip retail 12.6%.

Bulky goods retail sales over \$5.0 million sales made up 3.5% of all transactions by value totalling at \$50 million and 11.6% of the number of transactions with the sale of the "Super A-Mart" in Auburn being the most notable at \$28.25 million.

New South Wales retail trade by industry



Retail turnover by industry

Growth in household goods have decreased to +3.36% in the year to March 2017 from a peak of +13.99% in June 2015 which can be attributed to derived demand from a slowing housing market. Overall retail trade is reflective of consumer confidence and its current progression shows slackening growth from higher rates evident in 2014-15, with falling annual percentage changes for items such as books and stationary, flowers, make up etc., showing a downtrend in regards to discretionary spending.

NSW bulky goods retail outlook

Outlook

- There is a lowering amount of Bulky Goods retail space in the pipeline with the vast bulk currently under construction by large retailers in Sydney's West and no current DA approvals for future development.
- Rental growth levels have been helped by a strengthening residential property market over the past 2 years.
- There remains good demand for assets partially due to record low cost of debt and with strong tenants and long leases.
- The closing down of 61 Masters Home Improvement stores estimated to have a combined floor area of 700,000m² has created opportunities in the industry including the acquisition of 21 prime bulky goods development sites totalling \$750 million in a potential deal with Home Consortium comprising interested parties from the Aurrum Group, Spotlight and Chemist Warehouse, subject to consent from joint venture partner Lowe's who maintains a 33 percent stake in the joint venture investment vehicle Hydrox Holdings. In April 2017, an award granted to Woolworths from arbitration proceedings required Lowe's to sell its stake in the joint-venture company thereby allowing Woolworths to proceed with the transaction without Lowe's consent. Once completed, the deal would further consolidate the industry for 'Big Barn' sites and it is reported that Home Consortium has conversion plans for the Master's stores into large-format retail centres. It is highlighted that there are no Masters sites in Auburn, with the nearest being Chullora.

DEFINITIONS: As per Property Council of Australia and LandMark White

Regional: A shopping centre which generally includes a minimum of one department store, one discount department store, one or more supermarkets and approximately 100 or more specialty shops. The total GLAR will generally range between 30,000 and 50,000 square metres.

Sub-regional: A medium sized shopping centre with one major supermarket, one discount store and approximately 40 specialty shop as minimum requirements. Total GLAR will generally range between 10,000 and 30,000 square metres.

Neighbourhood: A local shopping centre which comprises of a supermarket and approximately 35 specialty shops. The total GLAR will generally be less than 10,000 square metres.

Strip: A row of ground level specialty shops. The total GLAR will generally be less than 3,000 square metres or 35 shops.

Bulky Goods: A medium to large sized shopping centre dominated by bulky good retailers (furniture, white goods and other home wares), occupying large areas to display merchandise. Typically contain a small number of specialty shops. Total gross lettable area retail is generally greater than 5,000 sq m in size.

CBD: any type of retail (bulky goods, strip retail etc.) within Sydney's Central Business District.

6.1 Tenancy profile

Tenancy profile					
Number of Tenancies Total	Non GLA	Occupancy	Average initial lease term	WALE by Income	WALE by Area
2	-	100.00%	7.5 years	7.21 years	7.19 years

6.2 Tenancy analysis

The following table provides a summary of the current tenancy mix.

Tenant	Area	WALE by income	Passing Rent \$ pa	\$/m ²	Gross Rent \$ pa	\$/m ²	% Rent	% GLA
Nick Scali	2,543	3.74	\$763,991	\$300	\$763,991	\$300	50.46%	46.41%
John Cootes Furniture	2,937	3.47	\$750,195	\$255	\$750,195	\$255	49.54%	53.59%
Total	5,480	7.21	\$1,514,186	\$276	\$1,514,186	\$276	100.00%	100.00%

6.3 Lease structures

I have been provided with a Proposed Lease and a Side Deed for the Ground Level of the subject building, with the pertinent details noted as follows.

Lease structures	
Lessor	Scali Consolidated Pty Limited.
Lessee	Nick Scali Limited.
Demised premises	Ground Level at 242 Parramatta Road, Auburn NSW.
Proposed lettable area*	2,561 square metres, subject to survey.
Commencement date	1 November 2016.
Term	8 years.
Initial term expiry	31 October 2024.
Options	2 further option periods of 5 years each.
Initial rental	\$275/m ² pa net + recoverable outgoings + GST.
Rent reviews	Fixed annual 3% reviews.
Outgoings paid by lessee	Proportional to the Lettable Area of the tenancy to the building.
Incentive	Despite the rental noted above, the rental shall be as follows: A: November 2016 – January 2017 - \$58,689 per month + GST. B: February 2017 – April 2017 – No rent payable. C: 1 May until Practical Completion - \$58,689 per month + GST.
Permitted use	Showroom for the display and retail sale of furniture and ancillary products, bedding, soft furnishings, lighting, homewares, home entertainment equipment including televisions and accessories and electrical goods.
GST	Payable in addition to the rent.
Public liability insurance	\$20,000,000.
Bank guarantee	6 months' rent plus outgoings and GST.

*NB: I have relied upon the gross lettable area indicated on the most recent Building Plans prepared by Paul Tilse Architects, dated 15 December 2016, which show a GLA for this tenancy of 2,543m². Should any subsequent surveys indicate a variation to the areas adopted within, the matter should be referred to me for review of the valuation as I deem appropriate.

I have been provided with a Deed of Agreement for Lease and an Incentive Deed dated 14 December 2016, along with an unsigned lease for Level 1 of the subject building, with the pertinent details noted as follows.

Lease structures	
Lessor	Scali Consolidated Pty Limited.
Lessee	JCF Management Pty Limited.
Guarantor	Elanor Investments Limited.
Demised premises	Tenancy 2 on Level 1 at 242 Parramatta Road, Auburn NSW.
Proposed lettable area*	2,828 square metres, subject to survey at the Commencement Date.
Commencement date**	The earlier of: A. The day after the expiry of JCF's Fitout Period. B. The day on which JCF commences trading from the demised premises.
Fitout period	28 days from the Handover Date.
Sunset date for practical completion	30 June 2018.
Term	7 years.
Options	No further option period.
Initial rental	\$230/m ² pa net + recoverable outgoings + GST.
Rent reviews	Fixed annual 3% reviews.
Outgoings paid by lessee	Proportional to the Lettable Area of the tenancy to the building.
Incentive**	3 months rent free from the lease commencement date plus a fitout contribution of \$100,000.
Permitted use	The display and retail sale of furniture and ancillary products.
GST	Payable in addition to the rent.
Other matters	The Lessee has a First Right of Refusal to lease the ground level tenancy.
Demolition clause	The Lessor may terminate the lease with 6 months written notice in years 6 & 7 of the lease. A termination fee of \$100,000 is payable to the Lessee should this occur.
Public liability insurance	\$20,000,000.
Bank guarantee	3 months' rent plus outgoings and GST.

NB:

* I have relied upon the gross lettable area indicated on the most recent Building Plans prepared by Paul Tilse Architects, dated 15 December 2016, which show a GLA for this tenancy of 2,937m². Should any subsequent surveys indicate a variation to the areas adopted within, the matter should be referred to me for review of the valuation as I deem appropriate.

** Whilst I have been advised the expected commencement date for the upper level lease is 29 August 2017, as this report has been prepared on an "as if complete" basis, I have assumed the lease for the upper level commenced 30 May 2017 and that the fitout and rent free incentives for Level 1 have been paid in full.

6.4 Tenancy schedule

A brief tenancy schedule is noted as follows.

Level	Tenant	Use	GLA m ²	Passing net rental \$pa	Recoveries \$pa	Gross rental \$pa	\$/m ²	Lease start	Lease term (yrs)	Lease end	Option (yrs)	Annual reviews
Ground level	Nick Scali	Showroom	2,543	\$699,325	\$64,666	\$763,991	\$300.43	1/11/2016	8	31/10/2024	5+5	Fixed annual 3%
Level 1	John Cootes Furniture	Showroom	2,937	\$675,510	\$74,685	\$750,195	\$255.43	30/05/2017*	7	29/05/2024	0	Fixed annual 3%
Total			5,480	\$1,374,835	\$139,351	\$1,514,186	\$276.31					

***NB:** Whilst I have been advised the expected commencement date for the upper level lease is 29 August 2017, as this report has been prepared on an “as if complete” basis, I have assumed the lease for the upper level commenced 30 May 2017 and that the fitout and rent free incentives for Level 1 have been paid in full.

6.5 Outgoings assessment

Based on the information provided, I have applied the annual outgoings for the purpose of this valuation as follows:

Type	Actual		PCA Benchmarks \$/m ²			Adopted	
	\$ pa	\$/m ²	Low	Medium	High	\$ pa	\$/m ²
Statutory expenses							
Council rates	\$17,423	\$3.18	\$5.24	\$6.23	\$7.19	\$17,423	\$3.18
Water rates	\$10,572	\$1.93	\$0.65	\$0.96	\$1.55	\$10,572	\$1.93
Land tax	\$42,089	\$7.68	\$4.65	\$6.93	\$9.22	\$42,089	\$7.68
Sub-total	\$70,084	\$12.79	\$10.54	\$14.12	\$17.96	\$70,084	\$12.79
Operating expenses							
Insurance premiums	\$0	\$0.00	\$1.61	\$2.05	\$2.49	\$11,234	\$2.05
Air-conditioning	\$0	\$0.00	\$0.34	\$1.03	\$1.72	\$5,644	\$1.03
Common cleaning	\$0	\$0.00	\$1.76	\$2.74	\$3.72	\$9,645	\$1.76
Common electricity	\$0	\$0.00	\$0.66	\$1.17	\$4.64	\$6,412	\$1.17
Repairs & maintenance	\$0	\$0.00	\$1.04	\$1.25	\$1.96	\$5,699	\$1.04
Gardening	\$0	\$0.00	\$0.75	\$1.03	\$1.31	\$4,110	\$0.75
Fire	\$0	\$0.00	\$0.29	\$0.64	\$1.07	\$3,507	\$0.64
Security	\$0	\$0.00	\$0.70	\$0.85	\$1.00	\$4,658	\$0.85
Pest control	\$0	\$0.00	\$0.06	\$0.09	\$0.16	\$877	\$0.16
Management	\$0	\$0.00	\$3.19	\$5.69	\$8.18	\$17,481	\$3.19
Sub-total	\$0	\$0.00	\$10.40	\$16.54	\$26.25	\$69,267	\$12.64
Total	\$70,084	\$12.79	\$20.94	\$30.66	\$44.21	\$139,351	\$25.43

Outgoings have been adopted based on either the passing expenditure amounts, statutory requirements or where appropriate market costs. Major expenses / adjustments are as follows:

- Statutory outgoings (Council rates, water rates and Land Tax) equating to \$70,084 pa have been adopted based on the actual costs.
- As I have not been provided with operating expenses, I have adopted market costs with reference to the PCA Benchmark ranges noted above.

My adopted market outgoings assessment of \$139,351 pa, reflecting \$25.43/m² of GLA, is within the range set by the PCA Bulky Goods Benchmarks 2016.

6.6 Rental evidence

In order to determine how the passing rentals compare to fair market rates, I have undertaken an investigation of leasing activity in the locality. The more relevant transactions are noted below:

Address	Lease date	GLA m ²	Rate \$/m ²
126 Parramatta Road Auburn	03/17	1,500	\$330 g

This tenancy comprises a modern bulky goods retail suite providing good exposure to Parramatta Road being occupied by Nike Factory Outlet under the provisions of a 6+6 year leasing agreement commencing 1 March 2017 based on an initial rental of \$495,000 pa gross with fixed annual 2.5% reviews. It is highlighted this is a new lease to an existing tenant.

Comments:

Whilst this tenancy provides a similar standard of accommodation, it comprises a smaller GLA and therefore rental rates per square metre of GLA below this agreement are warranted for the subject tenancies.

Address	Lease date	GLA m ²	Rate \$/m ²
Building B 290 Parramatta Road Auburn	01/17	1,260	\$135 n or \$172 g
<p>This tenancy comprises an older style industrial building providing a functional standard of showroom and warehouse accommodation being occupied by Daikin Air-Conditioning under the provisions of a 2 year leasing agreement commencing 25 January 2017 based on an initial rental of \$170,100 pa net or approximately \$216,976 pa gross. The lease included a 2 month rent free incentive.</p> <p><u>Comments:</u> Whilst this tenancy comprises a smaller GLA, it provides a far inferior standard of accommodation with inferior exposure. Therefore rental rates per square metre of GLA above this agreement are warranted for the subject tenancies.</p>			
1 Duck Street Auburn	12/16	852	\$235 g
<p>This tenancy comprises a modern bulky goods unit situated on the corner of Short Street and Duck Street providing a good standard of accommodation being occupied by an event stylist under the provisions of a 4+3 year leasing agreement commencing 1 December 2016 based on an initial rental of \$200,000 pa gross. The lease included a 2 month rent free incentive.</p> <p><u>Comments:</u> Whilst this tenancy comprises a smaller GLA, it provides an inferior standard of accommodation with far inferior exposure. Therefore rental rates per square metre of GLA above this agreement are warranted for the subject tenancies.</p>			
Shop 14 100 Parramatta Road Auburn	09/16	1,300	\$315 g
<p>This tenancy comprises a bulky goods showroom situated within a circa 2000 complex providing a good standard of accommodation being occupied by Body Fit Fitness Centre under the provisions of a 10 year leasing agreement commencing 8 September 2016 based on an initial rental of \$409,500 pa gross.</p> <p><u>Comments:</u> Whilst this tenancy provides inferior exposure, it comprises a smaller GLA. Therefore rental rates per square metre of GLA below this agreement are warranted for the subject tenancies.</p>			
Shops 1, 1B & 1C 19 Stoddart Road Prospect	04/16	5,557	\$209 g
<p>This tenancy comprises a bulky goods retail showroom situated within a bulky goods centre known as Homemaker Prospect being occupied by Fantastic Furniture under the provisions of a 5+5+5 year leasing agreement commencing 3 April 2016 based on an initial rental of \$1,159,546 pa gross with annual CPI reviews.</p> <p><u>Comments:</u> This tenancy comprises a larger GLA, is situated within an inferior location and provides inferior exposure. Therefore rental rates per square metre of GLA above this agreement are warranted for the subject tenancies.</p>			
9 Parramatta Road Lidcombe	03/16	580	\$243 g
<p>This tenancy comprises a bulky goods suite within a circa 1990 bulky goods retail building being occupied by 99 Bikes under the provisions of a 7.5+10 year leasing agreement commencing 1 March 2016 based on an initial rental of \$141,000 pa gross with fixed annual 3.5% reviews. The lease included a 3 month rent free incentive.</p> <p><u>Comments:</u> Whilst this tenancy comprises a smaller GLA, it provides an inferior standard of accommodation with inferior exposure. Therefore rental rates per square metre of GLA above this agreement are warranted for the subject tenancies.</p>			

Address	Lease date	GLA m ²	Rate \$/m ²
<i>Tenancy 1</i> <i>80-82 Mulgoa Road</i> <i>Jamisontown</i>	<i>12/15</i>	<i>2,509</i>	<i>\$354 g</i>

This tenancy comprises a brand new bulky goods tenancy located within an established bulky goods location being occupied by Freedom furniture under the provisions of a 10+5 year leasing agreement to commence on approximately 15 December 2015 based on an initial rental of \$800,100 pa net or \$887,118 pa gross with fixed annual 3.25% reviews.

Comments:

Whilst this tenancy is situated within an inferior location, it provides a brand new standard of accommodation with ample at-grade parking. Therefore rental rates per square metre of GLA below this agreement are warranted for the subject tenancies.

In forming my opinion of value, I have had regard to the rental evidence detailed above. My evidence has been obtained from various third party sources of information. Whilst I believe the information to be accurate, not all details have been formally verified.

The leasing agreement of Shops 1, 1B & 1C, 19 Stoddart Road, Prospect, reflects a rate of \$209/m² gross based on the GLA of 5,557m². As noted above, this tenancy comprises a larger GLA, is situated within an inferior location and provides inferior exposure. Therefore rental rates per square metre of GLA above this agreement are warranted for the subject tenancies.

The leasing agreement of 9 Parramatta Road, Lidcombe, reflects a rate of \$243/m² gross based on the GLA of 580m². As noted above, whilst this tenancy comprises a smaller GLA, it provides an inferior standard of accommodation with inferior exposure. Therefore rental rates per square metre of GLA above this agreement are warranted for the subject tenancies.

The leasing agreement of 126 Parramatta Road, Auburn, reflects a rate of \$330/m² gross based on the GLA of 1,500m². As noted above, whilst this tenancy provides a similar standard of accommodation, it comprises a smaller GLA and therefore rental rates per square metre of GLA below this agreement are warranted for the subject tenancies.

Analysis of the current and proposed leases within the subject reflect rental rates of \$300.43/m² gross for the ground level based on the GLA of 2,543m² and \$255.43/m² gross for Level 1 based on the GLA of 2,937m². These rentals are considered to be within current market parameters and have therefore been adopted as market for the purposes of this assessment.

6.7 Gross income assessment – Rent Analysis

A summary of the passing and market gross rental is as follows:

Tenant	Use	GLA m ²	Passing Gross	\$/m ²	Market Gross	\$/m ²
Nick Scali	Retail	2,543	\$763,991	\$300	\$763,991	\$300
John Cootes Furniture	Retail	2,937	\$750,195	\$255	\$750,195	\$255
Total		5,480	\$1,514,186	\$276	\$1,514,186	\$276

6.8 Net income assessment

A summary of the passing and market gross rental is as follows:

Item	Passing	\$/m ²	Market	\$/m ²
Total rental	\$1,374,835	\$251	\$1,374,835	\$251
Plus: recoveries	\$139,351	\$25	\$139,351	\$25
Gross income	\$1,514,186	\$276	\$1,514,186	\$276
Less: outgoings	\$139,351	\$25	\$139,351	\$25
Net market income	\$1,374,835	\$251	\$1,374,835	\$251

6.9 Cash flow profile

The following table provides a forecast cash flow as per the discounted cash flow model and the variance to fully leased market income.

Forecast cash flow growth and variance to fully leased market income										
Year Ending	1	2	3	4	5	6	7	8	9	10
31-05-18	31-05-19	31-05-20	31-05-21	31-05-22	31-05-23	31-05-24	31-05-25	31-05-26	31-05-27	
Net Cash Flow (before Capex)	\$1,385,371	\$1,427,943	\$1,471,686	\$1,516,628	\$1,563,024	\$1,610,956	\$1,655,646	\$917,859	\$1,757,831	\$1,811,345
Cash Flow Growth	-	3.07%	3.06%	3.05%	3.06%	3.07%	2.77%	-44.56%	91.51%	3.04%
Net Market Income (start of period)	\$1,374,835	\$1,414,214	\$1,454,341	\$1,497,056	\$1,542,354	\$1,596,429	\$1,651,126	\$1,704,907	\$1,761,921	\$1,825,232
Net Market Growth	-	2.86%	2.84%	2.94%	3.03%	3.51%	3.43%	3.26%	3.34%	3.59%
Variance (\$)	\$10,536	\$13,729	\$17,344	\$19,572	\$20,670	\$14,527	\$4,520	-\$787,047	-\$4,090	-\$13,887
Variance (%)	-	0.21%	0.23%	0.12%	0.03%	-0.44%	-0.65%	-47.82%	88.17%	-0.55%

- Net passing cash flow before assumed capital expenditure.
- Growth = actual growth in passing income.
- Adopted market rental growth under discounted cash flow analysis.
- Variance reflects the performance of the forecast passing cash flow relative to market. Negative figure = under market with positive reversions.

7.1 Sales evidence

I have examined recent market activity and have had particular regard to the following sales evidence, which I consider set the parameters by which the value of the subject property may be determined.

Address	Sale date	Sale price	Bldg m ² (\$/m ²)	Site m ² (\$/m ²)	Yield
8 Solent Circuit Baulkham Hills	06/17	\$18,000,000	4,876 (\$3,692)	11,700 (\$1,538)	4.12% IY 5.96% AMY

This property comprises a modern, circa 2000 commercial and industrial building located on the corner of Solent Circuit and Inglewood Place providing a good standard of office and warehouse accommodation plus ample onsite parking being zoned "B7 Business Park". The property sold being occupied by ZNX(2) Pty Ltd under the provisions of a 5+3+2 year leasing agreement with the initial term expiring 23 December 2017 paying a passing rental of \$741,550 pa net with annual reviews to the greater of CPI or 4%. The current rental is considered below current market levels, with a market rental of \$1,072,720 pa net considered appropriate.

Comments

Whilst this property provides inferior exposure, it represents a smaller capital investment and provides superior redevelopment potential having a larger site area. On balance, a capitalisation rate above this sale is warranted for the subject. This property provides an inferior standard of accommodation with a far inferior tenancy profile. Therefore a rate per square metre of GLA above this sale is considered appropriate for the subject.

305-305A Parramatta Road Auburn	05/17	\$11,600,000	5,475 (\$2,119)	9,214 (\$1,259)	8.16% IY 7.63% AMY
--	--------------	---------------------	----------------------------	----------------------------	-------------------------------

This property comprises an older style industrial/showroom building plus a vacant yard fronting Parramatta Road with a rear alignment to Short Street. The properties were purchased by the existing tenant Bingo Office "in one line" being utilised as a waste transfer facility under the provisions of 2 separate 10+10 leasing agreements commencing 1 July 2016 based on a combined initial rental of \$946,400 pa net with annual reviews to the greater of CPI or 4%. The rent is considered to be above current market levels, with a market rental of \$821,250 pa net considered appropriate.

Comments

This property provides an inferior standard of accommodation with an inferior tenancy profile and use. Hence a capitalisation rate below and a rate per square metre of GLA above this sale are warranted for the subject.

93-99 Parramatta Road Camperdown	04/17	\$12,900,000	2,043 (\$6,314)	506 (\$25,494)	3.12% IY 3.12% AMY
---	--------------	---------------------	----------------------------	---------------------------	-------------------------------

This property comprises an older style circa 1890 commercial warehouse building providing showroom accommodation along with onsite parking being sold fully leased by Rays Outdoors under the provisions of a 10+5+5 year lease agreement expiring 30 April 2019 based on a passing rental of \$403,048 pa net. The property enjoys a prominent corner location with 3 street frontages and is zoned B4 Mixed Use. The purchaser intends to demolish the existing improvements and redevelop the site to comprise a mixed use retail and residential development on the site.

Comments

This property is was purchased for re-development and therefore a capitalisation rate above and a rate per square metre of GLA below this sale are warranted for the subject.

7-9 Kenthurst Road Dural	01/17	\$6,500,000	1,872 (\$3,472)	4,331 (\$1,501)	3.50% IY 5.67% AMY
-------------------------------------	--------------	--------------------	----------------------------	----------------------------	-------------------------------

This property comprises an older style, circa 1970 industrial building which has been partially refurbished to provide a functional standard of bulky goods and gymnasium accommodation along with at grade, onsite parking. The property sold being occupied by 3 tenants under expired leasing agreements paying a total rental of \$290,000 pa gross which is considered to be below current market levels. The market rental is considered to be \$452,900 pa gross or \$390,649 pa net.

Comments

Whilst this property is situated within an inferior bulky goods location and provides an inferior tenancy profile, it represents a smaller capital investment. Therefore a capitalisation rate above this sale is warranted for the subject. This property provides a far inferior standard of accommodation and therefore a rate of GLA above this sale is warranted for the subject.

Address	Sale date	Sale price	Bldg m ² (\$/m ²)	Site m ² (\$/m ²)	Yield
9 Blaxland Road Campbelltown	12/16	\$5,875,000	2,336 (\$2,515)	4,167 (\$1,410)	5.96% IY 5.96% AMY

This property comprises a modern, circa 2006 bulky goods building providing a good standard of showroom, office and warehouse accommodation along with on-site parking being located within an established bulky goods area. The property sold being occupied by Nick Scali under the provisions of a 6+6 year leasing agreement commencing 27 November 2016 based on an initial rental of \$408,254 pa gross or \$349,926 pa net with annual CPI reviews.

Comments

Whilst this property is situated within an inferior bulky goods location, it represents a smaller capital investment and therefore a capitalisation rate above this sale is warranted for the subject. This property is situated within an inferior bulky goods location and therefore a rate per square metre of GLA above this sale is warranted for the subject.

311 Parramatta Road Auburn	12/16	\$28,250,000	8,451 (\$3,343)	25,100 (\$1,125)	6.20% IY 6.20% AMY
---------------------------------------	--------------	---------------------	----------------------------	-----------------------------	-------------------------------

This property comprises a modern bulky goods retail building plus onsite parking for 344 cars fronting Parramatta Road which sold being occupied by Super A-Mart under the provisions of a 10+5+5 year leasing agreement which commenced 10 October 2013 based on a passing rental of \$1,797,051 pa with annual CPI reviews. The Lessee is liable for all outgoings except management fees. The net rental is therefore considered to be \$1,752,125 pa. Super A-Mart sub-lease a portion of the property to Barbeques Galore and Homeland Furniture. The property is zoned "B6 Enterprise Corridor" under Auburn LEP 2010.

Comments

Whilst this property provides an inferior standard of accommodation, it is situated on a much larger site area. Therefore a capitalisation rate above this sale is considered appropriate for the subject. This property provides an inferior standard of accommodation and comprises a larger GLA. Therefore a rate per square metre of GLA above this sale is warranted for the subject.

5-21 Carter Road Menai	09/16	\$43,300,000	10,165 (\$4,260)	19,920 (\$2,174)	6.39% IY 7.19% AMY
-----------------------------------	--------------	---------------------	-----------------------------	-----------------------------	-------------------------------

This property comprises a retail and bulky goods complex known as Menai Central comprising four multi-tenanted buildings, plus a detached single tenant building utilised for a car wash with associated at grade and basement level parking for 227 cars. The property sold being 92% occupied reflecting a WALE of 4 years by area, with tenants including IGA, Dan Murphys, Goodlife Health Club and Supercheap Auto. The passing income equates to \$2,765,302 pa net, having a fully leased market rental of \$3,131,242 pa net.

Comments

Whilst this property represents a larger capital investment and therefore a capitalisation rate below this sale is warranted for the subject. Whilst this property comprises a larger GLA, it offers superior retail type accommodation. Therefore a rate per square metre of GLA below this sale is warranted for the subject.

516-526 Great Western Highway St Marys	08/16	\$12,000,000	8,236 (\$1,457)	15,600 (\$769)	6.78% IY 7.65% AMY
---	--------------	---------------------	----------------------------	---------------------------	-------------------------------

This property comprises a modern, bulky goods retail and industrial complex comprising twelve separate tenancies including a service station along with on-site parking of 105 cars. The property sold being fully occupied by 12 tenants paying a passing income of \$965,701 pa gross or \$813,351 pa net, reflecting a WALE by income of 3.33 years. Tenants include a gym, Subway, Dexion, a car detailer and a petrol station. The property is zoned "B6 Enterprise Corridor". The passing rental for a number of tenancies is considered to be below current market levels.

Comments

This property is situated within an inferior bulky goods location and provides an inferior tenancy profile. Therefore a capitalisation rate below and a rate per square metre of GLA well above this sale are warranted for the subject.

Address	Sale date	Sale price	Bldg m ² (\$/m ²)	Site m ² (\$/m ²)	Yield
<i>80-84 Mulgoa Road</i>	<i>01/16</i>	<i>\$14,350,000</i>	<i>2,700</i>	<i>8,144</i>	<i>6.47% IY</i>
<i>Jamisontown</i>			<i>(\$5,315)</i>	<i>(\$1,762)</i>	<i>6.27% AMY</i>

This property comprises a brand new bulky goods retail building situated within an established bulky goods precinct along with on-site parking for 93 cars. The property sold being fully occupied by 2 tenants including Freedom Furniture under the provisions of a 10+5 year leasing agreement to commence 15 December 2015 based on an initial rental of \$800,100 pa net with fixed annual 3.25% reviews. Tenancy 2 is occupied by Guzman Y Gomez under the provisions of a 10+10 year leasing agreement to commence 15 December 2015 based on an initial rental of \$128,576 pa net with fixed annual 3.5% reviews. The total rent equates to \$1,022,318 pa gross or \$928,676 pa net.

Comments

Whilst this property is situated within an inferior location, it provides a brand new standard of accommodation. On balance, a similar capitalisation rate is considered appropriate for the subject, whilst a rate per square metre of GLA below this sale is warranted for the subject.

The basis for comparison are defined below:

Initial Yield (IY) is the Passing Income divided by the Purchase Price or Adopted Value, after adjustment for Surplus Land and/or Capital Works if applied in the valuation. Passing Income includes non-core income (i.e. income not capitalised in perpetuity – e.g. communication towers).

Analysed Market Yield (AMY) is the Assessed Market Income divided by the Purchase Price or Adopted Value adjusted for reversions including, inter alia, vacancy, rental shortfalls or overage, capital expenditure required etc.

Reversionary Yield (RY) is the Assessed Market Income divided by the Purchase Price or Adopted Value. If an allowance has been made for Surplus Land or Capital Works the Purchase Price or Adopted Value is adjusted for these items prior to calculating the Reversionary Yield.

Internal Rate of Return (IRR) is an accepted method of calculating return on investment, which estimates the net income and capital return of buying, holding and selling a property over an adopted 10 year investment horizon in the context of an adopted value/sale price.

Rate/m² /building area is the Purchase Price or Adopted Value divided by the area of the building. The calculation includes car parks and signage.

Rate/m² site area is the Purchase Price or Adopted Value divided by the gross land area or useable land area.

Vacant Possession (VP) refers to a right to possession of land or built-up property in respect of which there is no current occupant.

8.1 General

In assessing the current Fair Market Value - Subject to existing and/or proposed lease(s) - As If Complete, I consider the appropriate method of assessment to be reconciliation between the Capitalisation, Discounted Cash Flow and Direct Comparison methods of valuation.

The Capitalisation approach in this instance has been effected by capitalising the assessed current net market rental at a yield obtained through the analysis of sales evidence. Allowances have been made in the calculations for costs incurred in securing tenants for any vacant space including agent's commission, incentives and lost income during the leasing phase. In addition, allowances have been made to take into account any rent reversions.

The Discounted Cash Flow has been prepared utilising a proprietary model known as Forbury Property Software ("Forbury"). The Discounted Cash Flow approach calculates a price, which a hypothetical investor could pay for the property based on the projected income and the required rate of return. The net present value represents the present value of future cash flows including rental income and a projected sale price at the end of the investment horizon.

The Direct Comparison approach analyses the sales evidence on the basis of rate per square metre of lettable area, which is then directly compared to the subject property.

8.2 Sales history

RP Data shows a non-arms length transfer for the subject and therefore no sales history can be provided.

8.3 Highest and best use

The property's Highest and Best Use is considered to be the current and proposed bulky goods showroom use.

8.4 Valuation inputs and assumptions

The following apply to both existing vacancies and future vacancies.

Item	Comment	
Letting up period	6 months.	
Incentives	4.69%. Where different incentive levels are applied to different tenancies, this figure may represent an average incentive for the property.	
Agents fees	6.50% average. This rate is applied to both new leases and renewals.	
Renewal Term	5 years. Where different renewal terms are applied to individual tenants, this figure may represent an average renewal term.	
Renewal likelihood	75.00%. Allowances impacted by the renewal probability are re-letting periods, leasing costs and make good allowances.	
Reversion Horizon	24 months.	
Acquisition Costs	5.70%.	\$1,246,881.
Disposal Costs	1.00%.	\$280,256.

8.4.1 Allowances

Year ending	Allowances									
	31-05-18	31-05-19	31-05-20	31-05-21	31-05-22	31-05-23	31-05-24	31-05-25	31-05-26	31-05-27
Vacancy Allowances										
Outstanding incentives	-	-	-	-	-	-	-	-	-	-
Future incentives	-	-	-	-	-	-	-	\$443,288	-	-
Leasing costs	-	-	-	-	-	-	-	\$122,939	-	-
Refurbishment on expiry	-	-	-	-	-	-	\$68,926	\$60,231	-	-
Total	-	-	-	-	-	-	\$68,926	\$626,458	-	-

Allowances										
Year ending	31-05-18	31-05-19	31-05-20	31-05-21	31-05-22	31-05-23	31-05-24	31-05-25	31-05-26	31-05-27
Capital Expenditure										
Annual sinking fund	-	-	-	-	-	-	-	-	\$987,989	-
Capital budget	-	-	-	-	-	-	-	-	\$987,989	-
Total	-	-	-	-	-	-	-	-	\$987,989	-

8.4.2 Reversions

Reversions	
Over(±) Market Income	The present value of the difference between gross market and gross passing rent until the leases reach expiry. The reversion has been discounted at 7.75%.
Special Income	Any income from the property that is more appropriately valued at a higher capitalisation rate than the core capitalisation rate or alternatively on the basis of the present value of the income for the term certain. This reversion applies to income streams such as profit on electricity, mobile phone towers, ATM's and amortised rents.
Lost Income on Vacant Space	The present value of lost income on current vacant space and future vacant space, occurring within the reversion horizon, based upon an average letting up period of 6 months.
Abatements	The present value of current and future incentives occurring within the reversion horizon. LMW applies 100% of the incentive offered to new tenants to renewals.
Allowances	The present value of allowances, including leasing costs, make good allowances, fitout allowances, cash incentives and capital expenses as detailed in Section 8.4.1 Allowances. They are discounted at the adopted discount rate.

8.5 Capitalisation method

Under this approach, the current market net income generated by the property is capitalised at an appropriate market yield to establish the property's current market value fully leased. Appropriate capital adjustments are then made to reflect the specific cash flow profile and characteristics of the property.

The sale of 8 Solent Circuit, Baulkham Hills, reflects a purchase price of \$18,000,000 and an analysed market yield of 5.96%. As noted within Section 7.1 of this report, whilst this property provides inferior exposure, it represents a smaller capital investment and provides superior redevelopment potential having a larger site area. On balance, a capitalisation rate above this sale is warranted for the subject.

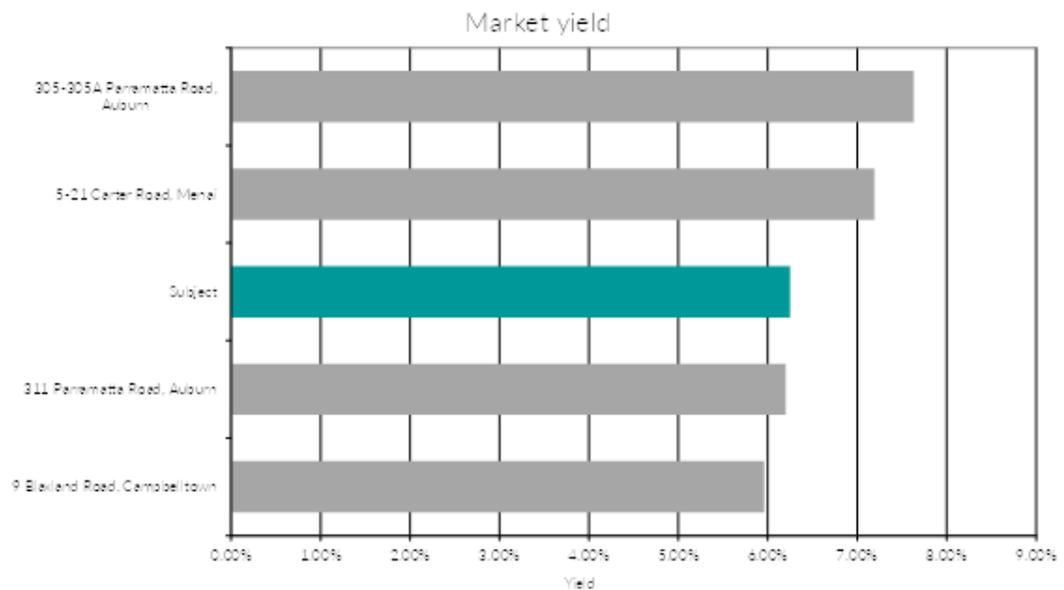
The sale of 9 Blaxland Road, Campbelltown, reflects a purchase price of \$5,875,000 and an analysed market yield of 5.96%. As noted within Section 7.1 of this report, whilst this property is situated within an inferior bulky goods location, it represents a smaller capital investment and therefore a capitalisation rate above this sale is warranted for the subject.

The sale of 311 Parramatta Road, Auburn, reflects a purchase price of \$28,250,000 and an analysed market yield of 6.20%. As noted within Section 7.1 of this report, whilst this property provides an inferior standard of accommodation, it is situated on a much larger site area. Therefore a capitalisation rate above this sale is considered appropriate for the subject.

The sale of 5-21 Carter Road, Menai, reflects a purchase price of \$43,300,000 and an analysed market yield of 7.19%. As noted within Section 7.1 of this report, whilst this property represents a larger capital investment and therefore a capitalisation rate below this sale is warranted for the subject.

The sale of 305-305A Parramatta Road, Auburn, reflects a purchase price of \$11,600,000 and an analysed market yield of 7.63%. As noted within Section 7.1 of this report, this property provides a far inferior standard of accommodation with a far inferior tenancy profile and use. Therefore a capitalisation rate below this sale is warranted for the subject.

Given the characteristics of the subject property including the large Parramatta Road frontage, the standard of accommodation upon completion, the location within an established bulky goods precinct and the lack of appropriate alternate sites, I consider the appropriate capitalisation rate for the subject property is 6.25%. This is compared to the analysed market yields of the sales evidence below.



My calculations are as follows:

Capitalisation approach	
Net market income	\$1,374,835 pa
Capitalisation rate	6.25%
Capitalised value	\$21,997,360
Total adjustments	\$Nil
Derived value	\$21,997,360
Say	\$22,000,000

Sensitivity			
Capitalisation rate	6.50%	6.25%	6.00%
Derived value	\$21,151,308	\$21,997,360	\$22,913,917
Say	\$21,150,000	\$22,000,000	\$22,900,000

8.6 Discounted cash flow analysis

A Discounted Cash Flow (DCF) analysis has been carried out utilising the Forbury Property Software (herein called Forbury), over an investment horizon of 10 years. The discounted cash flow technique focuses on the overall cost consequences of an investment, considering the amount and timing of inflows and outflows and the envisaged rate of return. The property's current market value is derived from discounting the net cash flow over the investment horizon to a present value at a rate reflecting the desired return, or overall yield, commensurate with the quality of the property and the stature of the lease covenants.

8.6.1 Cash flow inputs

Summarised below are the various inputs factored into the DCF analysis.

Year ending	May 2018	May 2019	May 2020	May 2021	May 2022	May 2023	May 2024	May 2025	May 2026	May 2027
CPI	2.31%	2.29%	2.39%	2.48%	2.41%	2.33%	2.16%	2.25%	2.50%	2.55%
MARKET RENTAL GROWTH										
Retail	2.81%	2.79%	2.89%	2.98%	3.41%	3.33%	3.16%	3.25%	3.50%	3.55%
OUTGOINGS										
Statutory Expenses	2.31%	2.29%	2.39%	2.48%	2.41%	2.33%	2.16%	2.25%	2.50%	2.55%
Operating Expenses	2.31%	2.29%	2.39%	2.48%	2.41%	2.33%	2.16%	2.25%	2.50%	2.55%
Building Capex	2.31%	2.29%	2.39%	2.48%	2.41%	2.33%	2.16%	2.25%	2.50%	2.55%
Gross effective market rent (\$/m ² start of period)	\$259	\$266	\$274	\$282	\$290	\$300	\$310	\$320	\$330	\$342
Avg 5 year Expenses	\$26	\$27	\$27	\$28	\$29	\$29	\$30	\$31	\$31	\$32
Avg 10 year Net effective market rent (\$/m ² start of period)	\$234	\$240	\$247	\$254	\$262	\$271	\$281	\$290	\$300	\$310

8.6.2 Discount rate

Analysis of comparable sales has been used in order to determine an appropriate discount rate for the subject. Having regard to the sales evidence and general characteristics of the property, I consider that a discount rate of 7.75% is appropriate.

The rate in my view reflects a commercially achievable rate in line with market expectations of a potential purchaser, whilst at the same time the adoption of this rate recognises that any projections within the cash flow may be subject to change from external factors that are not currently evident.

8.6.3 Terminal capitalisation rate

I have assumed that the property is sold at the beginning of the 11th year at a market yield of 6.75%. This reflects a 0.5% margin over the current yield and has regard to refurbishment/upgrade works anticipated necessary during and at the end of the cash flow horizon and also has general regard to functional utility and obsolescence issues at the assumed sale date adopted. It is not possible to predict the condition of the market at such a distant future, hence I have assumed normal market conditions would be in existence at this time. The terminal yield also has regard to the fact that the terminal value accounts for leasing allowances on vacant space within a 24 month horizon from the date of sale and associated leasing fees and anticipated capital expenditure.

8.6.4 Cash flow

CASH FLOW	1	2	3	4	5	6	7	8	9	10
Year ending	31-05-18	31-05-19	31-05-20	31-05-21	31-05-22	31-05-23	31-05-24	31-05-25	31-05-26	31-05-27
Initial expiries	-	-	-	-	-	-	53.59%	46.41%	-	-
Base rent by lease structure and renewal assumptions										
Retail	\$1,527,677	\$1,573,507	\$1,620,712	\$1,669,334	\$1,719,414	\$1,770,996	\$1,819,166	\$1,651,270	\$1,929,157	\$1,987,032
Total Income	\$1,527,677	\$1,573,507	\$1,620,712	\$1,669,334	\$1,719,414	\$1,770,996	\$1,819,166	\$1,651,270	\$1,929,157	\$1,987,032
Outgoings										
Statutory expenses	\$71,570	\$73,209	\$74,950	\$76,800	\$78,653	\$80,489	\$82,239	\$84,082	\$86,165	\$88,358
Operating expenses	\$70,736	\$72,355	\$74,076	\$75,905	\$77,736	\$79,551	\$81,280	\$83,102	\$85,161	\$87,328
Non-recoverable expenses	-	-	-	-	-	-	-	-	-	-
Outgoings	\$142,306	\$145,564	\$149,027	\$152,706	\$156,390	\$160,040	\$163,519	\$167,184	\$171,326	\$175,686
Net Income	\$1,385,371	\$1,427,943	\$1,471,686	\$1,516,628	\$1,563,024	\$1,610,956	\$1,655,646	\$1,484,087	\$1,757,831	\$1,811,345
Allowances										
Leasing allowances/Outstanding incentives*	-	-	-	-	-	-	\$68,926	\$626,458	-	-
Net Income before Capital Expenditure	\$1,385,371	\$1,427,943	\$1,471,686	\$1,516,628	\$1,563,024	\$1,610,956	\$1,586,720	\$857,629	\$1,757,831	\$1,811,345
Capital expenditure	-	-	-	-	-	-	-	-	\$987,989	-
Net Income after Capital Expenditure	\$1,385,371	\$1,427,943	\$1,471,686	\$1,516,628	\$1,563,024	\$1,610,956	\$1,586,720	\$857,629	\$769,842	\$1,811,345

*NB: Whilst I have been advised the expected commencement date for the upper level lease is 29 August 2017, as this report has been prepared on an "as if complete" basis, I have assumed the lease for the upper level commenced 30 May 2017 and that the fitout and rent free incentives for Level 1 have been paid in full.

8.6.5 Net present value

Based upon the abovementioned variables and at my target internal rate of return of 7.75% the net present value of the cash flow over the investment horizon equates to a value of **\$21,875,102, say \$21,875,000.**

Valuation summary			
Cash Flow period		10 years	
Discount rate		7.75%	
Terminal yield		6.75%	<i>Proportion</i>
NPV of cash flow		\$9,969,197	<i>43.12%</i>
PV of terminal value		\$13,152,786	<i>56.88%</i>
Less: Acquisition costs		\$1,246,881	
Net present value		\$21,875,102	

Sensitivity				
		Discount rate		
		8.00%	7.75%	7.50%
Terminal yield	7.00%	\$21,063,626	\$21,430,691	\$21,806,397
	6.75%	\$21,497,856	\$21,875,102	\$22,261,251
	6.50%	\$21,965,489	\$22,353,699	\$22,751,095

8.7 Direct comparison method

This approach identifies comparable sales on a dollar rate per square metre of gross lettable area basis and compares the equivalent rates to the subject to establish the property's current market value. This approach is somewhat subjective given the fact that specific items of income and expenditure together with remaining lease terms are often difficult to directly reflect and compare when adopting a rate per square metre.

The sale of 311 Parramatta Road, Auburn, reflects a rate of \$3,343/m² based on the GLA of 8,451m². As noted within Section 7.1 of this report, this property provides an inferior standard of accommodation and comprises a larger GLA. Therefore a rate per square metre of GLA above this sale is warranted for the subject.

The sale of 7-9 Kenthurst Road, Dural, reflects a rate of \$3,472/m² based on the GLA of 1,872m². As noted within Section 7.1 of this report, this property provides a far inferior standard of accommodation and therefore a rate of GLA above this sale is warranted for the subject.

The sale of 5-21 Carter Road, Menai, reflects a rate of \$4,260/m² based on the GLA of 10,165m². As noted within Section 7.1 of this report, whilst this property comprises a larger GLA, it offers superior retail type accommodation. Therefore a rate per square metre of GLA below this sale is warranted for the subject.

The sale of 80-84 Mulgoa Road, Jamisontown, reflects a rate of \$5,315/m² based on the GLA of 2,700m². As noted within Section 7.1 of this report, whilst this property is situated within an inferior location, it provides a brand new standard of accommodation and represents a smaller capital investment. Therefore a rate per square metre of GLA below this sale is warranted for the subject.

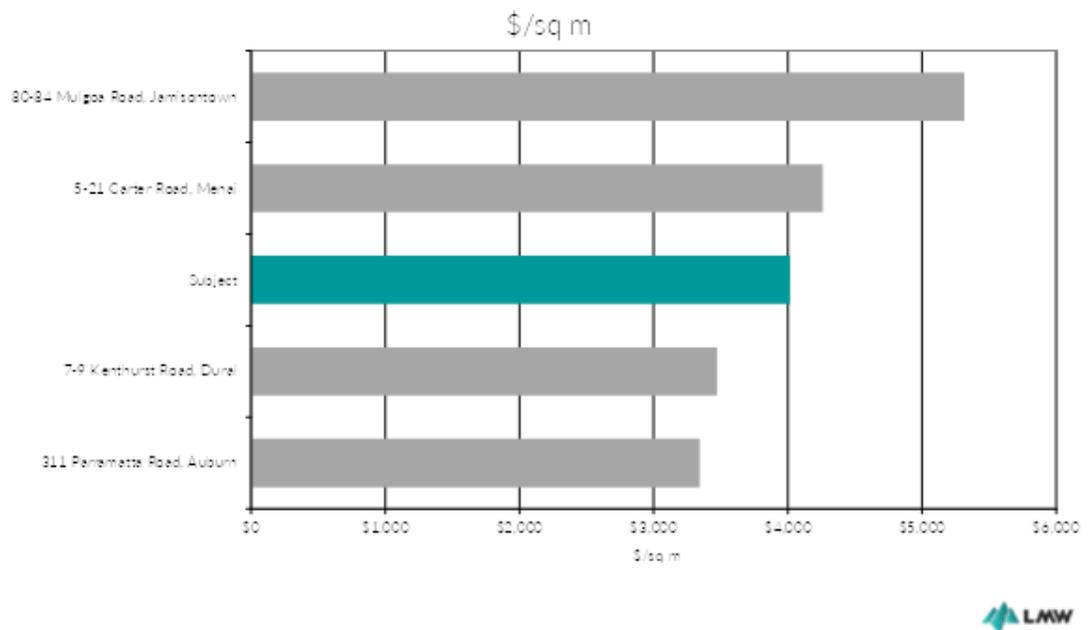
Having regard to the available market evidence, a range of \$3,800/m² to \$4,200/m² of gross lettable area is considered appropriate for the subject property in the context of the current market.

The application of these rates is summarised overleaf.

Direct comparison based on Gross Lettable Area

Gross Lettable area (m ²)		5,480m ²	
Pro rata value range (\$/m ²)	\$3,800/m ²	\$4,000/m ²	\$4,200/m ²
Derived value range	\$20,824,000	\$21,920,000	\$23,016,000
Say	\$20,800,000	\$21,900,000	\$23,000,000

A comparison of the adopted rate with the market evidence is as follows.



8.8 Selling and letting up periods

In the event a tenancy in the subject became vacant, I envisage a letting up period of up to 6 months. Should the property be marketed for sale, I envisage a selling period in the order of 6 months based on a professional marketing campaign and adequate advertising.

This opinion is based on market conditions as at the date of valuation only.

8.9 GST implications

Under the GST R2002/5, the sale of the property would be classified as a Going Concern and therefore GST free if:

- The property is leased and/or previously leased, is now vacant and being marketed for lease.
- The property is vacant, not previously leased and at least one agreement to lease is entered into.

Alternatively, given that a potential purchaser is likely to be able to claim input tax credits on purchase of the property, which in turn will allow the vendor to pass on the full cost of the GST to the purchaser, the parties may choose to use the Ordinary Method. In instances where difficulties arise in financing the full 10% GST for the period of 1-2 months following acquisition, potential purchasers may seek to utilise the Margin Scheme in order to reduce their GST liability. Consequently, all things remaining equal, I expect that there will be a neutral effect on any future sale of the property due solely to the tax positions of the vendor and purchaser.

9.1 Reconciliation of approaches and adopted value

The resultant values under each of the valuation approaches are as follows:

Capitalisation of Rent	Discounted cash flow approach	Direct comparison	Adopted value
\$21,150,000 - \$22,900,000	\$21,050,000 - \$22,750,000	\$20,800,000 - \$23,000,000	\$22,000,000

In order to comply with ASIC Guidelines, I consider a Fair market value range of between \$21,000,000 and \$23,000,000, excluding GST to be appropriate.

Adopted value, returns & running yields

Adopted value	\$22,000,000	Capital Value/m ²	\$4,015/m ²
Initial yield	6.25%	IRR (10 year)	7.66%
Analysed market yield	6.25%	Terminal yield	6.75%

Running Yield	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
After Cap Ex	6.36%	6.42%	6.48%	6.54%	6.60%	6.73%	6.58%	3.58%	3.03%	6.72%

Subject to the qualifications and assumptions contained within the body of this report, I assess the Fair Market Value, as at 22 June 2017, to be:

Fair Market Value – Subject to existing and/or proposed lease(s) – As If Complete

\$22,000,000 excluding GST.

(TWENTY-TWO MILLION DOLLARS)

In order to comply with ASIC Guidelines, I consider a Fair market value range of between \$21,000,000 and \$23,000,000, excluding GST to be appropriate.

This valuation is for the private and confidential use only of Nick Scali Limited with reliance given to Deloitte Corporate Finance Pty Limited for Acquisition purposes only. No third party is entitled to use or rely upon this report in any way and neither the valuer nor LMW shall have any liability to any third party who does.

Only an electronically signed valuation submitted through a digital valuation instruction broker system, a signed hardcopy original of this valuation, a scanned version of a signed hardcopy original of this valuation or an electronic version of this valuation signed with an electronic signature should be relied upon and no responsibility or liability will be accepted for unauthorised copies of the valuation.

No part of this valuation or any reference to it may be included in any other document or reproduced or published in any way without written approval of the form and context in which it is to appear.

Neither the valuer nor LMW has any pecuniary interest giving rise to a conflict of interest in valuing the property.

The value assessed herein is based on the definition of market value unless otherwise stated in the report and does not represent the realisable value based on a mortgagee or receiver sale.

This valuation is current 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. I do not accept liability for losses or damage arising from such subsequent changes in value including consequential or economic loss. Without limiting the generality of the above comment, I do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of three 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.

Quality Assurance procedures are undertaken prior to reports being released requiring internal compliance and verification checks. The reviewing Director has not inspected the property. Their signature confirms a genuine authorised LMW document. The opinion of value expressed in this report is that of the valuer only.


Valuer Jarrod Piltz MRICS AAPI
Certified Practising Valuer
Director

Entity LandMark White (Sydney) Pty Ltd
Office Sydney


Reviewing Arthur Zaglas
party

Position Director

Liability limited by a scheme approved under Professional Standards Legislation

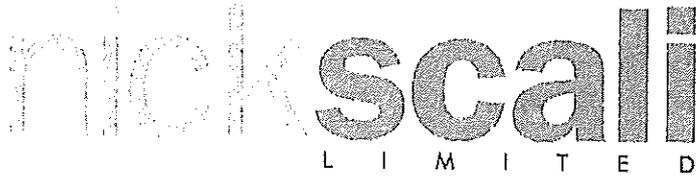
This document is prepared by LandMark White (Sydney) Pty Ltd ATF LandMark White (Sydney) Unit Trust.

LandMark White (Sydney) Pty Ltd provides its valuation or advisory services as a member of the LMW Group of Companies and pursuant to a licence granted by LandMark White Ltd. In accordance with this licence, LandMark White (Sydney) Pty Ltd utilises the trademark and brands of LandMark White Ltd and has a link to the LMW website. It thereby claims the benefit of all terms and conditions applicable to the use of such trademark, brands and website for the purposes of the provision of its valuation or advisory services.

Sole responsibility for the provision of the valuation or advisory services by LandMark White (Sydney) Pty Ltd rests with that entity and LandMark White Ltd assumes no responsibility nor otherwise acknowledges any liability for the provision of such services by reason of its licensing of LandMark White (Sydney) Pty Ltd.

1. Letter of instruction
2. Title search
3. Deposited Plan

Nick Scali Limited
ABN 82 000 403 896
Head Office
3-29 Birnie Avenue
Lidcombe NSW 2141
Australia



Phone: +61 2 9748 4000
Facsimile: +61 2 9748 4022

Jarrold Piltz
Associate Director
LandMark White
Level 15, 55 Clarence Street
Sydney
NSW 2000

15 June 2017

Dear Jarrod

Re: Independent opinion with respect to the fair market value of the Auburn Premises

Background

Nick Scali Limited (Nick Scali or the Company) is contemplating the acquisition of the Auburn Premises and the Independent Directors wish to understand the fair market value of the property prior to making an offer to purchase to the owner of the Auburn Premises (Scali Consolidated Pty Limited).

Further if an agreement to purchase the Auburn Premises is made, Nick Scali will need to obtain shareholder approval in order to enter into the proposed purchase agreement in relation to the acquisition of the Auburn Premises, as it is viewed as entering into a related party transaction (given the owner of the Auburn Premises is associated with Mr Anthony Scali, our Managing Director). In line with best practice corporate governance, Nick Scali have engaged Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance), in the first instance, to undertake preparatory work in relation to the potential independent expert's report (IER), which will be required if an agreement to purchase is made, advising whether the proposed acquisition of the Auburn Premises from Scali Consolidated is fair and reasonable to Non-Associated Shareholders.

We would like LandMark White (Sydney) Pty Limited (LMW) to provide the Independent Directors with an opinion with respect to the fair market value of the Auburn Premises and to provide technical specialist support to Deloitte Corporate Finance with respect to the fair market value of the Auburn Premises, in the case of an IER being required. Subject to you maintaining independence in line with ASIC's guidance, we are of the view that a single report will be sufficient for both purposes.

The services

Through the course of the provision of your services, we request that you work under the instruction of executives of Deloitte Corporate Finance. The relevant Authorised Representative of Deloitte Corporate Finance is Tapan Parekh.

Whilst Deloitte Corporate Finance will be able to provide specific guidance, we expect that you will be requested to prepare a report setting out your opinion of the fair market value of the Auburn Premises while also setting out:

- an overview of the Auburn premises, including any key features
- an analysis of the current property market for large format retail properties
- an analysis of the current and future cash flows to be derived from the Auburn Premises, based on the current tenancy details and outgoings profile
- recent evidence of the sales and rental rates achieved for large format retail properties in the same vicinity.

You will be requested to include Deloitte Corporate Finance in any meetings or discussions between you and ourselves and any other third party (including the vendor) in respect of your work. You may also be requested to advise Deloitte Corporate Finance in respect of other matters connected with the Auburn Premises.

LMW's report (Your Report) will be provided to the Independent Directors in the first instance and also annexed to the IER prepared by Deloitte Corporate Finance (if required) and be distributed to shareholders of Nick Scali.

Deloitte Corporate Finance will also provide LMW with a draft of the IER to confirm that they have accurately referred to your work and Your Report and that any statement or matters which relate to Your Report or the matter in which it is referred to in the IER are accurately stated in all material respects in the IER before they issue the IER.

Independence

Deloitte Corporate Finance have advised us that the services will need to be carried out in accordance with the relevant provisions of the Australian Securities and Investments Commission (ASIC) Regulatory Guides, in particular RG111.119 and Section E of RG112. Both Regulatory Guides are appended to this letter for your information.

As an independent expert preparing the IER Deloitte Corporate Finance must be independent as contemplated by RG112 and be satisfied that LMW are independent too.

We request that you:

- maintain your independence while providing the services
- avoid entering into any arrangements which may affect your independence
- notify Deloitte Corporate Finance immediately if:
 - you are no longer independent
 - anything happens that could cause you to not be independent
 - any matter occurs that could give rise to an actual or potential conflict of interest in relation to the services
- work with Deloitte Corporate Finance in good faith to resolve any conflict or matter affecting your independence
- advise Deloitte Corporate Finance in advance of any meetings or discussions in relation to undertaking your work, with ourselves or any other third party, to afford them the opportunity to attend the meetings or discussions.

Should you wish to discuss any respect of the independence requirements, please feel free to contact Mr Tapan Parekh of Deloitte Corporate Finance.

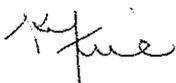
Fees and expenses

LMW's fees of \$7,250 plus GST associated with the services described in this letter will be met by the Company.

If you have any questions please contact me on 02 8737 7225. For convenience, I have also provided Mr Tapan Parekh's contact details below:

Tapan Parekh
Partner and Authorised Representative
Deloitte Corporate Finance
M: +61 406 428 009
E: tparekh@deloitte.com.au

Yours sincerely



Kevin Fine
Chief Financial Officer
Nick Scali Limited

Cc: Tapan Parekh, Authorised Representative, Deloitte Corporate Finance

LAND AND PROPERTY INFORMATION NEW SOUTH WALES - TITLE SEARCH

FOLIO: 100/800560

SEARCH DATE	TIME	EDITION NO	DATE
27/6/2017	3:59 PM	8	2/12/2004

LAND

LOT 100 IN DEPOSITED PLAN 800560
AT AUBURN
LOCAL GOVERNMENT AREA CUMBERLAND
PARISH OF LIBERTY PLAINS COUNTY OF CUMBERLAND
TITLE DIAGRAM DP800560

FIRST SCHEDULE

SCALI CONSOLIDATED PTY LIMITED (T 9945804)

SECOND SCHEDULE (4 NOTIFICATIONS)

- 1 RESERVATIONS AND CONDITIONS IN THE CROWN GRANT(S)
- 2 I868221 LEASE TO SYDNEY ELECTRICITY OF PREMISES BEING "SUBSTATION PREMISES NO. 7051 "KIHILLA PARRAMATTA", TOGETHER WITH A RIGHT OF WAY, AS SHOWN IN PLAN WITH I868221. EXPIRES 31.5.2043
- * AK971351 LEASE OF LEASE I868221 TO BLUE ASSET PARTNER PTY LTD, ERIC ALPHA ASSET CORPORATION 1 PTY LTD, ERIC ALPHA ASSET CORPORATION 2 PTY LTD, ERIC ALPHA ASSET CORPORATION 3 PTY LTD & ERIC ALPHA ASSET CORPORATION 4 PTY LTD EXPIRES: SEE DEALING. CLAUSE 2.3 (b) (ii).
- * AK971352 LEASE OF LEASE AK971351 TO BLUE OP PARTNER PTY LTD, ERIC ALPHA OPERATOR CORPORATION 1 PTY LTD, ERIC ALPHA OPERATOR CORPORATION 2 PTY LTD, ERIC ALPHA OPERATOR CORPORATION 3 PTY LTD & ERIC ALPHA OPERATOR CORPORATION 4 PTY LTD EXPIRES: SEE DEALING. CLAUSE 12.1
- * AK971502 MORTGAGE OF LEASE AK971351 TO ANZ FIDUCIARY SERVICES PTY LTD
- * AK971571 CHANGE OF NAME AFFECTING LEASE I868221 LESSEE NOW ALPHA DISTRIBUTION MINISTERIAL HOLDING CORPORATION
- 3 AB134115 LEASE TO NICK SCALI LIMITED OF GROUND FLOOR SHOP, 242-248 PARRAMATTA RD, AUBURN. EXPIRES: 28/2/2014.
- * 4 AM215605 CAVEAT BY JCF MANAGEMENT PTY LIMITED

NOTATIONS

END OF PAGE 1 - CONTINUED OVER

LAND AND PROPERTY INFORMATION NEW SOUTH WALES - TITLE SEARCH

FOLIO: 100/800560

PAGE 2

NOTATIONS (CONTINUED)

UNREGISTERED DEALINGS: NIL

*** END OF SEARCH ***

17006

PRINTED ON 27/6/2017

* Any entries preceded by an asterisk do not appear on the current edition of the Certificate of Title. Warning: the information appearing under notations has not been formally recorded in the Register. InfoTrack an approved NSW Information Broker hereby certifies that the information contained in this document has been provided electronically by the Registrar General in accordance with Section 96B(2) of the Real Property Act 1900.



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 225,000 professionals, all committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2017 Deloitte Corporate Finance Pty Ltd