Newmark Capital Limited
Valuation policy

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1 Introduction

The valuation policy (**Policy**) below sets out the parameters and targets in respect of the valuation of real property assets that Newmark Capital Limited ACN 126 526 690 (**Newmark Capital**) invests in or may invest in as Responsible Entity of Newmark Hardware Property Trust No. 1 ARSN 161 274 111, Newmark Como Property Trust ARSN ARSN616 371 665or any other registered scheme that it operates from time to time (**Funds**). While the parameters and targets are set out in the Policy, there may be valid reasons as to why the Policy has not been applied, for example where the Fund is in a distressed position and the real estate must be sold, the assets are of a specialised nature and traditional valuation methods are not appropriate (or industry practice). Any departure for this Policy is to be approved by the auditor of the Fund, Compliance Committee and the Newmark Capital Board.

2 Statement of Purpose

(a) This document establishes a property valuation methodology for the Funds which Newmark Capital is the Responsible Entity.

(b) The policies and procedures established in this document apply to all direct real estate properties (including freehold, strata and leasehold interests) that the Funds invests in or may invest in (**Properties**).

(c) This document applies to all valuations of Properties that are required to comply with the annual, half yearly or special purpose reporting requirements (including valuations required as a result of unit pricing, redemption and/or application pricing) effective from the last date the Policy is updated.

3 Definitions

Adopted Book Value is the book value as at the period end (being either 30 June, 31 December or another nominated reporting date), after the adoption by Newmark Capital of the Independent Valuation.

As-is is the valuation of a property on the basis of its current physical state / condition.

As-if-complete is the valuation of a property on the basis that all required or proposed construction / development has been completed at the date of valuation.

Asset Manager is the person appointed by Newmark Capital responsible for monitoring, maintaining and enhancing the direct real estate assets owned by a fund. The Asset Manager may be the same person as the Fund Manager.

Capitalisation Method is the methodology that calculates a property's value based on its estimated net market or contract income (income less operating costs). The net income receivable is assumed to be a level annuity in perpetuity, and the capitalisation rate is derived from analysis of market evidence. The present value of reversions to market rent, together with associated short-term leasing risks/costs, terminating rent lines, incentives and capital expenditure are deducted from the capitalised net income figure in order to determine value.

CFO is the appointed person acting as the Chief Financial Officer (or equivalent role) of Newmark Capital.

Current Book Value is the Adopted Book Value recorded in the accounting records from the close of the most recent prior period end (being either 30 June, 31 December or another nominated reporting date).

Discounted Cash Flow Method is the methodology that calculates a property's value based on the present value of the future net cash flows (income less operating and capital expenditures, including a terminal value), discounted at an appropriate (market determined) discount rate.

Estimated Period End Book Value is the actual book value as at the current period end (the valuation date, being either 30 June, 31 December or another nominated reporting date), and being made up of the Current Book Value plus normal passage of time adjustments (e.g. capitalisation and amortisation of leasing costs, capital expenditure incurred and assets disposed of) between period ends, along with additional allowances for accruals for unpaid amounts (such as unpaid lease incentives etc.) as at the period end.

Fund Accountant is the person appointed by Newmark Capital responsible for recording and reporting the financial results of the Fund / the properties owned by the Fund.

Properties are individual real property assets that the Fund invests in or may invest in.

Fund Manager is the person appointed by Newmark Capital responsible for establishing, implementing and managing a Fund's investment strategy / financial structure and overseeing the day-to-day operating activities of the Fund.

Heads of Terms (leases) is the formal precursor to a lease or licence and is a summary of the key terms of the agreement.

Independent Valuation is the valuation of a Property performed in accordance with the process identified in Section 8 by a registered or licensed valuer in the relevant state, territory or overseas jurisdiction in which the Property is located (where a registration or licensing regime exists), or otherwise be a member of an appropriate professional body in that jurisdiction (Valuer) that is independent from parties that may have a financial interest in or associated with the Property.

Internal Valuation is the valuation of a Fund Property performed in accordance with the process identified in Section 7 by the Asset Manager and approved by the Fund Manager.

4 Responsibility and Roles

The Asset Managers will be provided, and must comply, with the Policy and the Fund Manager and CFO must ensure that it is complied with by the Asset Manager. The Asset Manager will also be responsible for establishing and ensuring adherence to the timetable for the internal and independent valuation process.

Where there is no Asset Manager, the responsibilities of the Asset Manager set out in this Policy will be performed by the Fund Manager.

Where there is no Asset Manager or Fund Manager, the responsibilities of the Asset Manager and the Fund Manager set out in this Policy will be performed by Newmark Capital.

5 Principles / Policy

A Property will be valued in accordance with AASB 140 – Investment Property and AASB 117 – Lease at Independent Valuation.

5.1 Independent Valuation

At a minimum, an Independent Valuation is to be obtained for a Property:

(a) as a pre-condition of the purchase of that property. The valuation methodology to be used is dependent on the type of property being acquired:

(i) for a development property – on an ‘As is’ and ‘As if complete’ basis; or

(ii) for all other property – on an ‘As is’ basis;

(b) within two months of the Board of Newmark Capital forming the view that there is a likelihood that there has been a material change (±5% to the Fund Properties Estimated Period End Book Value) in the value of the property;

(c) in accordance with the timetable as set by the Fund Manager or Asset Manager but at least once every three years; and

(d) when required by a lender in order to comply with any facility agreement term.

5.2 Internal Valuation

An Internal Valuation must be undertaken at other reporting dates when an Independent Valuation does not occur (i.e. 30 June, 31 December or another nominated reporting date), or is no longer considered current. In these circumstances the following applies:

(a) Where an Internal Valuation produces a variance of greater than ±5% to the Fund Property’s Estimated Period End Book Value an Independent Valuation is required.

(b) Where the Estimated Period End Book Value varies from the most recent Independent Valuation by ±5%, a new Independent Valuation is required, subject to the following:

(i) Where a property has been purchased within the last twelve months, the property is not required to be independently valued where the first two years after the purchase date, provided the value determined by the Internal Valuation is less than ±5% of the Property’s Estimated Period End Book Value.

(ii) The part of the Estimated Period End Book Value that relates to capital expenditure incurred in respect of a current development project that will derive incremental net property income shall be deducted from the Estimated Period End Book Value before comparison.

(iii) Where the last Independent Valuation contained market adjustments for expenditure or commitment of funds to satisfy a lease incentive obligation, the Internal Valuation may be compared to the Independent Valuation with the later being modified for the cost of the incentives assessed by the valuer (subject to the valuer itemising these incentives in the last Independent Valuation). Provided the range of values as determined by the Internal Valuation is less than ±5% of this modified valuation, a new Independent Valuation need not be sought.

(c) Where the Board has been asked to approve the disposal of a property and the most recent Independent Valuation is older than 12 months and there has been no on-market sales campaign the Property is to be valued at its expected gross selling price (deemed to be its Internal Valuation).

(d) Where the Board considers appropriate, the Board may adopt an Internal Valuation as the Adopted Book Value.

6 Inclusions and Exclusions

(a) The fair value of an Investment Property is to be recognised in accordance with AASB 140 – Investment Property, AASB 117 – Lease and the valuations performed should incorporate the following:

  (i) rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in light of the current conditions;

  (ii) any cashflows (including rental payments and other outflows) that could be expected in respect of the property, excluding liabilities already recognised at valuation date;

  (iii) the value of any lease incentives which have not been discharged (eg. rent free period remaining as at valuation date) (note such incentives will then be capitalised and amortised over the lease period);

  (iv) all of the landlord’s plant, equipment, fixtures and fittings;

  (v) none of the tenants plant, equipment, fixtures and fittings (unless there are agreements which provide for these to cede to the landlord at some future time); and

  (vi) market conditions at the time of valuation.

(b) The calculations to derive the valuations should not make any adjustment for the following:

  (i) prepaid or accrued operating lease income;

  (ii) disposal costs that may be incurred on a sale (with the exception of the DCF terminal value);

  (iii) special consideration or concessions granted by anyone associated with the sale (eg. rental guarantees); or

  (iv) future capital expenditure that will improve or enhance the property.

7 Internal Valuation Process

(a) The Asset Manager in conjunction with the Fund Manager will review the key valuation metrics to be utilised in the valuations process, so as to promote consistency across the portfolio. These key metrics may include the market capitalisation rate, discount rate, market rental and the like, noting that one property's characteristics may differ from another therefore requiring assumptions to be made by the Asset Manager and Fund Manager.

(b) The Asset Manager will establish the valuation methods to be utilised, with these being consistent with current industry valuation practice for the property type and locality in each case. The most commonly utilised methods for stabilised properties are currently the Capitalisation Method and Discounted Cash Flow method.

(c) The Asset Manager may publish a table detailing the key metrics and valuation methods, along with a timetable for completion of the internal valuation process if required at a reporting period.

(d) The Asset Manager may complete the internal valuations and submit their workings to the Fund Manager along with appropriate explanations of assumptions and treatments of construction works, incentives and the like.

(e) In cases where the Fund Manager considers a second opinion to be necessary, then the Fund Manager may seek an external peer review of any or all of the internal valuations

(f) The Fund Accountant will be responsible for providing the Asset Manager with details of the Current Book Value of each property.

(g) The Fund Accountant will seek the input of the Asset Manager in order to determine an Estimated Period End Book Value, which will include the accruals for unpaid costs as at the period end.

(h) The criteria for determining whether a liability should be recognised in respect of a future payment for a property are:

(i) there is a legally enforceable obligation by virtue of a binding contract or requirements imposed by legally authorised bodies or government statues; and

(ii) it is probable the event will occur that necessitates the need for payment; and

(iii) the liability can be measured reliably.

(i) The Asset Manager will then calculate the differential between the resultant Internal Valuation and the Estimated Period End Book Value, and (having regard to the three year policy) accordingly determine the properties for which an Independent Valuation will be required.

(j) Once the Independent Valuations have been completed, the Asset Manager will conduct a further review of the Internal Valuations in reference to the Independent Valuations to ensure consistent and appropriate allocation with respect to key valuation variables (primarily market capitalisation rate and discount rate). The Internal Valuations will be adjusted as required, and the Asset Manager will then publish a table of the Internal Valuations along with details of key valuation variables employed, and the net gain/loss on Estimated Period End Book Value (in $ and %).

(k) The Asset Manager and the Fund Manager will then meet, review and approve the final Internal Valuations.

(l) Once the Internal Valuations are finalised, the Asset Manager will submit the Internal Valuations along with a summary of key variables referred to above, to the funds auditors for audit (refer Section 10).

8 Independent Valuation Process

(a) The Asset Manager will select the properties to be subject to Independent Valuation, utilising the criteria set out in the foregoing sections of this policy. The Asset Manager may select properties for Independent Valuation where Independent Valuation is not otherwise required by this policy.

(b) The Asset Manager will appoint Valuers, having regard to their expertise and experience in locality, appropriate qualifications, cost and any actual or potential conflicts of interest and that are approved by the secured lender(s) (if required). In particular, the following guidelines will be applied when appointing a Valuer:

   (i) the valuer will be registered, licensed or a member of the appropriate professional body applicable to the relevant state, territory or jurisdiction in which the property is located (as appropriate);

   (ii) the valuer will be independent from parties that may have a financial interest in or associated with the property (i.e. Newmark Capital and its associates) and will be free from conflicts of interests (circumstances which may create a risk that professional judgment or actions regarding a primary interest (i.e. determining the fair value of a property) will be unduly influenced by a secondary interest (other motives, whether financial or non-financial in nature). Where an actual or perceived conflict of interest is identified the appointment of the valuer will be terminated; and

   (iii) the same Valuer will not be appointed for more than two consecutive Independent Valuations for a property (excluding an acquisition valuation).

(c) The Asset Manager will issue each Valuer with a formal letter of instruction, setting out the agreed fee, timetable for completion of the valuation, and the required items to be included in the scope of the valuation report.

(d) The Asset Manager will then provide the Valuer with all salient information to enable the Valuer to complete the valuation.

(e) Once a draft report is available the Asset Manager will review the report, in conjunction with the Fund Manager, including the key assumptions and variables used and will seek revision where necessary. The Asset Manager will produce a Valuations Memo which will also detail the comparable assumptions and variables utilised in the last external valuation, and will comment on variations and the reasons for these.

(f) Once the Fund Manager has approved the Valuation Memo, the Asset Manager will obtain the final bound valuation report.

(g) The Asset Manager will maintain a copy of all Independent Valuations.

(h) Once the Independent Valuations are finalised, the Asset Manager will submit the Independent Valuations along with a summary of key variables referred to above, to the Fund Accountant (refer Section 10).

9 Financial instruments

(a) AIFRS adjustments: where there is an intention to hold derivative instruments, such as interest rate swaps, to expiry, Newmark Capital may not mark to market the valuation of these instruments for unit pricing purposes. Records stating this information will be retained by Newmark Capital.

(b) Any short term deposits, including cash at bank, and liabilities payable are carried at face value. Financial records stating this information will be retained by Newmark Capital.

10 Audit

(a) The Fund Accountant will be responsible for providing a copy of the Internal Valuation and the Independent Valuation reports received from the Asset Manager to the Fund's auditors for their review.

(b) After the Fund's auditors have completed their review, a summary of the Internal and/or Independent Valuations will be submitted to the Newmark Capital's Board for their review and approval. The Asset Manager will be responsible for preparing these papers which are to include an explanation of the key valuation variables, methods and variances compared to each property and prior period valuations. Once approved, the Independent and/or Internal Valuations will be adopted as the Fund's Adopted Book Value.

11 Treatments

The treatments detailed below apply to Internal and Independent Valuations alike, in circumstances where such is reasonably applicable.

11.1 Leases

(a) The prerequisite for inclusion of a lease is that an unconditional binding lease, licence, or agreement for lease has been executed. Where there is sufficient documentation to indicate clear intention by all parties, and in the case of conditionality, a high likelihood of fulfilment, then this may be included only where this is the usual industry valuation practice.

(b) The Asset Manager will direct the Valuer as to the inclusion or exclusion of any transactions, and any other issues which are unresolved and are material to the value of the property (having regard to the likely status at the effective date of the valuation). These may include unresolved market rent reviews, new leases, variations of leases, and dealings which are subject to council approval. In this regard the Asset Manager will liaise with the Fund Manager prior to determining the valuation treatment.

11.2 Rent free period and incentives

(a) All valuations must include a deduction within the calculations for undischarged rent free periods and other incentives as at the effective date of valuation.

(b) The valuation is to assume that unpaid costs with respect to works that have been completed or substantially completed, or leasing fees which are due yet unpaid, are paid in full as at the effective date of the valuation. Any such unpaid amounts will be provided for as an accrual or otherwise within the Adopted Book Value.

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