

Our Reference
J157734:MDB

25 February 2022

Anthony Savenkov
Head of Real Estate Portfolio (Development & Transactions) Property and Assets
City of Port Phillip
99a Carlisle Street

St Kilda Vic 3182

Via Email: anthony.savenkov@portphillip.vic.gov.au

Dear Anthony

Re: Rental Assessment
Property: 39 The Avenue, Balaclava

To advise the current market rental value of the above property to assist in your deliberations.

Definition of Market Rent

The definition of Market Rent as stipulated by the International Valuations Standards (IVS) effective 31 January 2020 and endorsed by the Australian Property Institute (API) is:

Market Rent is the amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Significant Valuation Uncertainty - COVID-19

The market is being impacted by the uncertainty caused by the COVID-19 pandemic. As at the date of valuation we consider that there is market uncertainty resulting in significant valuation uncertainty.

This valuation is therefore reported on the basis of 'significant valuation uncertainty'. As a result, less certainty exists than normal and a higher degree of caution should be attached to our valuation than normally would be the case.

Given the unknown future impact that COVID-19 might have on markets, we recommend that the user(s) of this report review this valuation periodically.

This valuation is current at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the date of valuation). We do not accept responsibility or liability for any losses arising from such subsequent changes in value.

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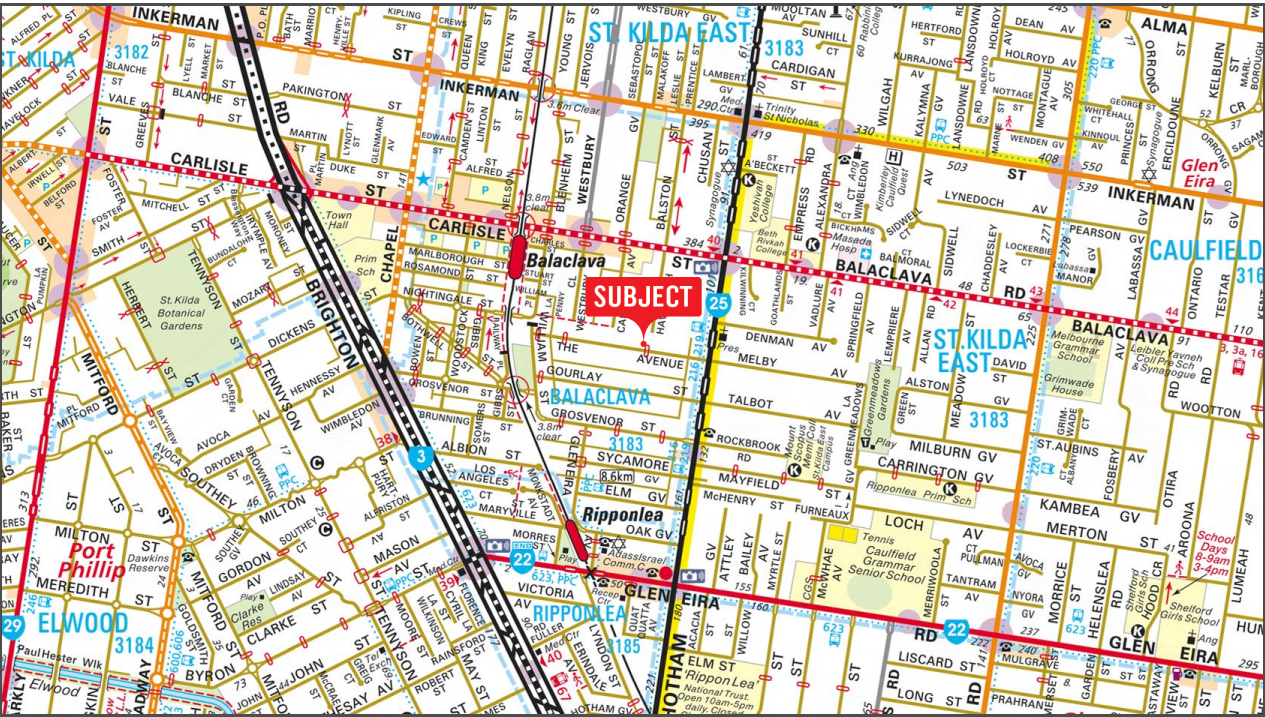
Document Disclosure

In preparing our advice we have been provided with the following documentation:

- Floor Plan
- Copy of current Lease
- Planning Permit
- Outgoings

Locality

The property occupies a position on the south side of The Avenue, a short distance to the west of Hotham Street. The area is established residential including a mix of period homes, townhouses and apartments. There is retail amenity within proximity to the north on Carlisle Street, and also within the Glen Eira Road, Ripponlea retail strip to the south. Education facilities within proximity include St Kilda Primary School, Ripponlea Primary School and Elwood Primary School.



SOURCE - Melway Online

High Level Competition Analysis

We have defined a catchment area to include the suburbs of St Kilda East, St Kilda, Balaclava and Ripponlea¹. We note the following long day child care centres, together with the number of approved places, current daily fee rates and vacancies where available.

Address	Approved Places
61 Balaclava Road, BALACLAVA	60
23 Nelson Street, BALACLAVA	55
39 The Avenue, BALACLAVA	40
366 Carlisle Street, BALACLAVA	16
76 Alma Road, ST KILDA EAST	60
2 Balston Street, ST KILDA EAST	32
89 Westbury Street, ST KILDA EAST	60
67 Hotham St, ST KILDA EAST	40
Total Places	363

¹ As defined by the St Kilda East Statistical Area 2 (SA2).

High Level Demographic Commentary

Analysis of population data from the Australian Bureau of Statistics reveals an increase in the number of 0 - 5 year olds within the catchment over the period 2011 - 2016 by a total of 78 children, from 997 to 1,075.

During the same period, the total population growth in the catchment has increased from 15,709 to 16,417.

A total of 363 approved places currently operate within the catchment area and this demonstrates a ratio of 2.96 children per approved child care place. This is generally considered to represent a likely average level of demand for child care services within this catchment as it is preferred to see a ratio of at least 3 children per approved child care place based on industry benchmarks.

A summary of our findings is shown below:

	2011	2016	Net Change 2011-2016	Avg. Annual Change 2011-2016
Catchment Population				
Catchment Population (0-5 Years)	997	1,075	78	1.52%
Total Catchment Population	15,709	16,417	708	0.89%
0-5 Year Population, as % of total population	6.3%	6.5%	-	-
Potential Child Care Demand	Poor (ratio: 0-2)	Average (ratio: 2-3)	Good (ratio: 3-4)	Strong (ratio: > 4)
Current Child Care Ratio		2.96		

Historical population data is stated with respect to estimated resident population published by the Australian Bureau of Statistics for Statistical Area 2 (SA2) Geographical Regions.

Improvements

The property comprises a former dwelling converted for use as a child care centre with a current capacity for the education and care of 40 children pursuant to the Service Approval.

In summary, the accommodation includes an entry foyer; manager's office; three children's education rooms which are serviced by a single children's bathroom; a staff room; central kitchen; a laundry and a staff bathroom. The building has a dated appearance although appears structurally sound and in reasonable condition for its age. The configuration is typical of a converted dwelling but less functional in the current market.

External playground areas are provided at the front and rear of the building. No car parking is available on site.

Photographs of the tenancy taken at our inspection are as follows:



Front Aspect



Manager's Office



Education Room



Kitchen



Education Room



Staff Room



Playground



Playground

Occupancy Details

We have been provided with a copy of the existing Lease which is retained on file. The salient lease terms and conditions are summarised as follows:

Summary of Existing Lease

39 The Avenue, Balaclava

Landlord	Port Phillip City Council
Tenant	The Avenue Children's Centre Inc
Commencement Date	1 July 2020
Term	Two years and six months
Further Term	Nil
Commencing Net Rental	\$110,000 p.a. plus GST discounted to \$10 p.a. plus GST, if demanded as per Special Condition 17
Rental Reviews	Not applicable
Outgoings	Lessee responsibility
GST	Lessee
Permitted Use	Childcare Centre
Retail Leases Act 2003	Does not apply

Summary of Existing Lease

Redevelopment Clause Nil

The property is currently exempt from paying municipal rates, but the lessee is liable for payment of the annual fire levy and waste charges.

Due to the imminent lease expiry, our assessment of the market rent assumes notional lease terms typically as follows:

Notional Lease Terms

Term	5 – 10 years
Reviews	Fixed increases at 3% p.a. or CPI
Outgoings	Lessee responsibility with the exception of Land Tax (single holding basis)
GST	Lessee responsibility on the provision of a valid Tax Invoice

Service Approval

Australian Children's Education & Care Authority has approved centre-based care at the subject property. The Service Approval details are summarised as follows:

Service Approval	
Service Approval Number	SE-00003649
Approved Places	40
Provider Name	The Avenue Childrens Centre Inc
Provider Approval Number	PR-40002693
Service Approval Granted Date	1 January 2012
Conditions of Approval	Nil

SOURCE - www.acecqa.gov.au

Comparative Rental Evidence

We have had regard to a range of evidence which can be considered in varying degrees comparable which is summarised as follows:

Rental Schedule – Child Care Centres

	Child Care Places	Net Rental	Net Rental Rate
60 Manningham Road, Bulleen			
Lessee	Manningham Road Early Learning	40	\$134,000 p.a. \$3,350 p.c.c.p.p.a.
Commencement Date	February 2021		
Term	10 + 10 + 10 Years		
Reviews	Annual 3% with a marker review on the commencement of each further term.		
Outgoings	Lessee is responsible excluding Land Tax		
Description	A single level purpose built centre constructed circa 2000 which has car parking for six vehicles. New lease with an incentive by way of four months rent free.		
Comparison to Subject	A similar size centre which is purpose built and provides improvements of a superior quality. Benefit of paved car parking on site. Although the location is inferior, a lower rental rate is considered to be applicable to the subject as a result of its inferior quality and lack of car parking.		

Rental Schedule – Child Care Centres

	Child Care Places	Net Rental	Net Rental Rate
1 Alderford Drive, Wantirna			
Lessee	Watch me Grow	29	\$79,041 p.a. \$2,725 p.c.c.p.p.a.
Commencement Date	January 2021		
Term	5 + 5 + 5 + 5 Years		
Reviews	Annual 3% increase with a market review at the commencement of each further term.		
Outgoings	Lessee responsibility excluding Land Tax.		
Description	A single level former dwelling of brick construction, located at the intersection with Harold Street. The lease was renewed to the sitting tenant. No incentive.		
Comparison to Subject	A smaller centre which is also a converted dwelling. The improvements are considered to be of a superior quality, and it has the benefit of car parking on site. Inferior outer suburban location. On balance, a lower rental rate is considered to be appropriate for the subject.		
1 Milton Avenue, Clayton			
Lessee	Young Einsteins	33	\$43,636 p.a. \$1,322 p.c.c.p.p.a.
Commencement Date	October 2020		
Term	1 + 5 + 5 Years		
Reviews	Annual CPI increase with a market review at the commencement of each further term.		
Outgoings	Lessee responsibility excluding Land Tax.		
Description	A single level former dwelling of cement sheet construction which provides three education rooms, a concrete paved driveway and a drop-off area. The lease was renewed to the sitting tenant. No incentive.		
Comparison to Subject	A similar size centre which is also a converted dwelling. The improvements are considered to be of a similar quality, and it has the benefit of car parking on site. Inferior outer suburban location. The commencing rent appears favourable to the lessee and relates to a 12 month term only. On balance, a higher rental rate is considered to be appropriate for the subject.		
675 Burke Road, Camberwell			
Lessee	Mayfield Childcare Limited	70	\$210,000 p.a. \$3,000 p.c.c.p.p.a.
Commencement Date	February 2020 (renewal)		
Term	5 + 5 + 5 + 5 Years		
Reviews	3% p.a., market at option		
Outgoings	Lessee responsibility		
Description	A single level former Edwardian style dwelling converted for the child care use. Provides four child care education rooms and parking for 13 vehicles.		
Comparison to Subject	A larger centre which is also a converted dwelling with similar period features. The improvements are considered to be of a superior quality to the subject and it has the benefit of car parking for 13 vehicles. Similar inner suburban location although it benefits from main road exposure. A lower rental rate is considered to be appropriate for the subject.		
465 Burwood Highway, Vermont South			
Lessee	Hilltop Early Learning Pty Ltd	32	\$102,400 p.a. \$3,200 p.c.c.p.p.a.
Commencement Date	October 2019		
Term	10 + 10 + 10 Years		
Reviews	Annual CPI increases with a market review at the commencement of year 6 and at each further term.		
Outgoings	Lessee responsibility excluding State Land Tax.		
Description	A single level purpose-built centre constructed in 2016. Situated on the northern side of Burwood Highway. Offers three activity rooms and car parking for 4 vehicles.		
Comparison to Subject	A smaller size centre which is purpose built and forms part of an inferior outer suburban location. Also has the provision of car parking on site. We believe a lower rental rate is applicable to the subject.		

Rental Schedule – Child Care Centres

	Child Care Places	Net Rental	Net Rental Rate
89 Westbury Street, St Kilda East			
Lessee	Affinity Education Group	60	\$157,000 p.a. \$2,617 p.c.c.p.p.a.
Commencement Date	April 2017 (market review)		
Term	15 + 5 + 5 Years (from April 2007)		
Reviews	Annual CPI increases with a market review on the tenth anniversary of the commencement which is capped at a 5% increase.		
Outgoings	Lessee responsibility including State Land Tax.		
Description	A single level former dwelling converted to a child care centre in or about 1999. The building provides five education rooms and car parking for six vehicles.		
Comparison to Subject	A converted dwelling of similar quality which forms part of the sae suburb. Benefit of car parking on site. We acknowledge the relevant date of the market review which was conducted in April 2017 and is now somewhat dated. We consider that a lower rental rate is appropriate for the subject.		

Assessment

It is often the case that there are very few examples of evidence directly comparable to any one particular occupancy. Accordingly, it is usual and necessary to make adjustments in relation to factors such as location, occupancy size, street frontage/exposure, lease duration, adjustments for the timing of transactions, and other broader considerations. The market does not always transact in such a sophisticated manner so as to reveal the precise adjustments undertaken by valuers, although such adjustments are generally required to be made in order to improve the degree of comparability of evidence.

Our assessment has been conducted on the basis that the centre is able to continue operation as a child care centre and complies with current regulations.

In providing our assessment we have had regard to the following considerations:

- The building presents in average condition and the configuration is not particularly functional and we consider it would have limited appeal in the current market.
- There is no car parking provided on site.
- An extended leasing period would likely be required.

Based upon the abovementioned rental evidence and essential considerations, together with our aforementioned comments as to comparability, our assessment as to a current market rental is in the order of \$2,300 p.c.c.p.p.a.

We refer you to our calculations as follows:

40 places @ \$2,300 p.c.c.p.p.a.	\$92,000
Adopt \$92,000 p.a. net (Exclusive of GST)	

This advice is for the use only of the party to whom it is addressed and for no other purpose. No responsibility is accepted for any third party who may use or rely on the whole, or any part, of the content of this letter. No responsibility will be accepted for photocopied signatures. It should be noted that any subsequent amendments or changes in any form to the subject property would only be notified to and known by the parties to whom it is addressed.

We draw attention to the provisions of our Professional Indemnity Insurance, that all valuation advice is only valid for 90 days from the date of this advice / inspection / assessment, no responsibility being accepted for clients' reliance upon our advice beyond that period. Accordingly, any parties authorised to rely upon our opinion should be aware of the need for a review as necessary.

Should you have any queries in relation to this matter, please do not hesitate to contact the undersigned on mobile number +61 (0) 412 731 230 or via email at martyn.boyle@charterkc.com.au.

Please visit our web site: **charterkc.com.au**

Yours sincerely
Charter Keck Cramer



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