

CONFIDENTIAL REPORT



REPORT FOR:	Operations Committee		
MEETING DATE:	12 May 2014		
REPORT FROM:	Director – City & Cultural Services		
REPORT TITLE:	Negotiations with State Government around Cinema Augusta Complex and other Surplus TAFE SA Buildings		
FILE NAME:	F11/3909	RECORD NO:	AR14/12790

COMMUNITY VISION & STRATEGIC PLAN OUTCOMES

1 We Thrive

- 1.4 Develop partnerships to attract investors in business proposals and new developments that contribute to a diversified and robust economy.

2 We Create

- 2.1 Provide facilities and programs that support creativity and excellence in recreation, sport and the arts.
- 2.2 Establish dedicated creative spaces that contribute to a vibrant community.

PURPOSE

To provide Elected Members with an update on the negotiations between Council and the State Government regarding the acquisition of surplus TAFE SA buildings, including the Cinema Augusta Complex and seeking a direction forward.

RECOMMENDATION

Operations Committee recommends Council:

1. Seek the State Government's commitment to enter into a 5 year lease with Michelle and Roger Coles, to ensure the continuation of a Cinema in Port Augusta, with Council being prepared to contribute, up to \$10,000 annually for 5 years, to the lease cost in order to retain a Cinema in the City.
2. Approves a delegation comprising the Mayor, City Manager and Director – City & Cultural Services meeting with Minister Gail Gago, to outline the restrictions that currently apply to Council, resulting in Council's inability to accept the State Government's offer at this time.
3. Seek the Ministers support for Council to revisit this offer, contained within the letter dated 17 April 2014 from the Chief Executive of DEFEEST contained in Appendix A, within the next 5 years, once Council has had an opportunity to finalise current projects, retire a large part of its debt and strategically considered the future use and costs associated with owning and operating the surplus TAFE SA buildings including the Cinema Augusta Complex.

BACKGROUND

The saga of the Cinema Augusta lease has been ongoing since early 2011 and operators Michelle and Roger Coles have been negotiating with the State Government in an endeavour to secure a longer term lease of the Cinema Augusta Complex, which is located within the old TAFE SA theatre.

During these negotiations it was proposed by Michelle and Roger Coles that perhaps Council could take control of the Cinema Augusta Complex and therefore Council became embroiled in these negotiations, with a further offer being placed on the table by TAFE SA for the transfer of the adjoining two storey and single storey buildings which are surplus to TAFE SA requirements.

Council considered a report in September 2013 outlining the offer of these buildings and Council at its meeting held on 23 September 2013 resolved:

1. *In principle supports the proposal of the State Government for Council to assume responsibility for the portion of Section 1167 in CT5554/414 which comprises the Cinema Augusta, adjoining office and two storey building, at no cost and in fee simple from the State Government with no trusts, dedications or reservations attached, subject to Council reaching agreement with Cinema Augusta to ongoing leasing arrangements.*
2. *Seeks Ministerial approval for the transfer of the property in fee simple, as stated above.*
3. *Receives a further report, once the Minister has made a determination in regard to Council's preferred transfer option, outlining the financial impact of taking over responsibility for this property.*

A letter was forwarded to Mr Peter Klar, Executive Director, Corporate Services, Department for Further Education, Employment, Science and Technology on 27 September 2014, outlining the Council resolution in relation to this matter.

It should be noted that the current lease of the Cinema Augusta Complex expires on 30 June 2014. It is understood that the State Government are continuing their negotiations directly with Michelle and Roger Coles, as a meeting has been scheduled for 6 June 2014 with Michelle and Roger Coles, Mayor Sam Johnson, Hon Gail Gago, Minister for Employment, Higher Education and Skills, Senator Nick Xenophon, and Dan van Holst Pellekaan, Member for Stuart.

DISCUSSION

1. Surplus TAFE SA Buildings

On 24 April 2014 Council received a response (refer Appendix A) to the letter forwarded to Mr Peter Klar in September 2013, advising that the State Government would support a commercial sale of the buildings subject to the following:

- 1.1 The property be valued at the date of transfer to determine a market value.
- 1.2 If the property is then sold an amount equivalent to the market value to returned to the State; and
- 1.3 All proceeds above this market value to be returned to the Council.

In 2011, the property was valued at \$2.2m based on the following calculations, as outlined within a valuation report prepared by Valcorp Australia Pty Ltd:

Site Value		\$1,180,000
Added value attributed to Improvements:		
Buildings	\$2,060,000	
Site Improvements	\$ 70,000	\$2,130,000
TOTAL VALUE		\$3,310,000
Less Approximate Upgrade Costs		\$1,200,000
Net Value (rounded)		\$2,110,000

The above estimated upgrade costs, are identified as mechanical, electrical, hydraulic, fire protection costs only and do not include structural, stormwater, drainage and plumbing issues associated with the Cinema Augusta Complex. Any refurbishment of the buildings would require additional expenditure, on a case by case basis, as the buildings are redeveloped for identified occupation purposes.

Asbestos removal would also be required as part of any such upgrades and this component alone can be very expensive, and have not been included within the estimated upgrade costs identified above. For improvement access to the second floor, it would also be appropriate to have an elevator installed to replace the current chair lift. Depending on whether an elevator could be installed within the current building structure or externally, such an installation could be in the vicinity of \$300k as a minimum.

Council acknowledges the great opportunity that taking over responsibility for these buildings may have for the community, due to its location adjacent the Augusta Highway and being within the Central Oval Redevelopment precinct, however also has to consider the financial implications that this will have on capital and recurrent funding, and how this could be managed effectively.

Further, any statutory costs associated with regard to a sub-division, separation of services and stamp duty costs should not have to be paid by Council.

Council's current commitment to the redevelopment of the Central Oval Precinct (\$20m) and the Airport Terminal (\$1.2m) will have a significant financial impact on annual budgets for a number of years, and Council's first priority must be to complete these two projects. The extension to the Carpenters Landing Boat Ramp has commenced at a value of \$500k, of which Council is responsible for contributing 50% of the funding.

In addition to the above strategically important projects, Council is also working with the State Government to have the Civic Centre Precinct land including, Town Hall, old vacant Police Station Site and Old District Courthouse and Old Croquet Club land sold and redeveloped. The State Government have indicated that if the land is not sold on the open market, they will then be prepared to negotiate with Council on how best to have this land developed. Council therefore needs to be in a position to action these projects, if the land is not sold. An outcome on these properties should hopefully be known within the next twelve months.

Council has also resolved to provide support to finding the Port Augusta Boxing Club, Port Augusta Vehicle Restorers Club and Port Augusta Model Engineers Society new facilities if they are required to vacate their current premises due to their current sites being required for other purposes (e.g. aged accommodation and Civic Centre Precinct redevelopment).

As members are aware, the current Long Term Financial Plan is predicated on reducing total debt levels using funds from the sale of the Airport land and maintaining a commitment to the capital required in the annual budget. Given the uncertainty around the availability of funds from the Airport and also given Council's commitment to Central Oval and Airport re-development, there is limited scope to provide the capital required to complete a major upgrade of the TAFE buildings from a loan. That said, if an anchor tenant could be found from Government or the private sector to rent a part of the building, these funds could be used to self service a loan.

Although the offer made by the State Government appears to be very good, the costs associated with the required upgrades to the buildings will be significant. Council would need to achieve an anchor tenant to provide a permanent income, along with the Cinema Augusta operators, to assist in financing the annual operating costs, with perhaps community groups utilising space having to pay for outgoings. Currently, many of Port Augusta's community groups have access to Council properties under peppercorn leasing provisions, and this would have to be reviewed in the long term.

2. **Cinema Augusta Complex**

The Cinema Augusta Complex lease expires on 30 June 2014 and Michelle and Roger Coles have been in negotiations with the State Government for a number of years, to have approved a longer term lease arrangement.

Councils negotiations with the State Government in relation to taking over ownership and operating the surplus TAFE SA buildings including the Cinema Augusta are likely to take some time to complete and to ensure the operation of Cinema Augusta continues in the interim, it is considered appropriate that the State Government approve entering into a 5 year lease with the Cinema operators.

Council is, and always has been, very supportive of Cinema Augusta's plight to secure a long term lease arrangement, to give them some permanency and stability in regard to continuing their service to the community of Port Augusta. It is understood that the lease fees and outgoings costs paid by Cinema Augusta operators, may not cover the State Governments annual costs for maintaining this portion of the TAFE SA building and therefore it is recommended that Council consider contributing to this lease cost, up to a value of \$10,000 annually, in order to retain a Cinema in Port Augusta. This option should be raised with the Minister when the Council delegation meets to discuss the surplus TAFE SA buildings offer.

CONFIDENTIALITY PROVISIONS

The Council is satisfied that, pursuant to Section 90(3)(b) of the Act, the information to be received, discussed or considered in relation to this report is information the disclosure of which could reasonably be expected to confer a commercial advantage on an entity with whom the Council is proposing to conduct business.

In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in the continued non-disclosure of the information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information. The Council is satisfied that the principle that the meeting be conducted in a place open to the public has been outweighed in the circumstances because Council needs to be able to negotiate an acceptable arrangement with the State Government to continue the Cinema Augusta operation for the betterment of the community.

That having considered this report in confidence under Section 90(2) and (3)(b) of the *Local Government Act 1999*, the Council, pursuant to Section 91(7) of that Act orders that the 'Transfer of Cinema Augusta and Other TAFE SA Port Augusta Buildings' report be retained in confidence until negotiations have been finalised and that this order be reviewed every 12 months if negotiations extend past a twelve month period.

RISK MANAGEMENT

1: Financial/Budget

A detailed cost benefit analysis would need to be undertaken in relation to this proposal to ensure that expenditure costs and revenue streams are identified and the sustainability and financial viability of owning and operating these buildings is fully investigated.

If Council support contributing up to \$10,000 annually towards the lease fees for the Cinema Augusta Complex, this financial commitment would equate to \$50,000 over the next 5 years, which is inline with the period of time being sought by Council to finalise negotiations with the State Government over the TAFE SA surplus buildings offer.

2: Legal

Section 36 of the *Local Government Act 1999* provides that Council has the legal capacity of a natural person and, in particular may enter into any kind of contract or arrangement.

Section 48 of the *Local Government Act 1999* provides that a Council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body, where the council considers that it is necessary or appropriate. In this case, it may be considered appropriate that such a report be presented to Council for consideration.

3: Environment

It is proposed as part of the Central Oval redevelopment to improve the garden area of the TAFE complex along the National Highway boundary to improve the amenity of this precinct and provide an improved vision of Central Oval to passing vehicles.

4: Community

4.1 General

The community have been very vocal with regard to supporting Cinema Augusta's ongoing service to the community and the State Government have made it clear that they do not wish to continue the current leasing arrangement with the Cinema operators, as this is not part of their core business. State Government would like to have Council assist in taking over this responsibility for the benefit of the community and it is important that Council provide support where possible. It is also important that Council very carefully consider the full financial impact of taking on this whole area, prior to making a final decision on the matter.

4.2 OPAL Program Not applicable.

Lee Heron
07/05/2014



Ref: BRIEFC/14/352

17 April 2014

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Dear Mr Perkin *Greg*

Thank you for your letter dated 21 March 2014 regarding the Cinema Augusta. I appreciate your quick response to try to resolve this matter. The Cinema Augusta represents a valuable asset for the Port Augusta community and the State Government is committed to ensuring that any transfer is on a fair and equitable basis so that the community can continue to benefit from this important facility.

I understand the Council's preference to receive the property at no cost and in fee simple. I appreciate the desire of the Council to be able to recover any ongoing costs regarding maintenance or upgrade of the cinema and therefore propose the arrangement below to accommodate this.

In relation to an agreement whereby any proceeds from a commercial sale are distributed between the State and Council I propose the following:

- The property be valued at the date of transfer to determine a market value.
- If the property is then sold an amount equivalent to the market value be returned to the State; and
- All proceeds above this market value to be returned to the Council.

This process allows both the Council and the State to recoup prior investments made and allows the Council the opportunity to invest as necessary to enhance market value.

For information, the property was valued at \$2.2 million in 2011 by an independent valuer, but of course we will be happy to obtain an up to date valuation at the time of transfer. The 2011 valuation is attached for your information.

I ask that you develop a business case, as suggested, to determine the Council's appetite for such a proposal. This will allow both the State and the Council to understand if Council ownership is a viable alternative or not.

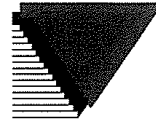
If you have any further queries or require information please contact Mr Peter Klar, Executive Director, Corporate Services, DFEEST on peter.klar@sa.gov.au or 8226 3292.

Yours sincerely

Raymond Garrand
CHIEF EXECUTIVE

VALUATION REPORT

Port Augusta TAFE College Site, Carlton Parade, Port Augusta



VALCORP
AUSTRALIA PTY LTD

ACN 008 147 671
ABN 27 008 147 671

1.0 INSTRUCTIONS

This valuation has been prepared under instructions from the Department of Further Education, Employment, Science and Technology for advisory purposes.

For the purposes of this valuation we have determined a market value as defined by the International Valuation Standards Committee that reads as follows;

"The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion."

We are instructed to value a portion of the Port Augusta TAFE College property, comprising Buildings 2 and 2a, together with cartilage as delineated on the attached plan.

2.0 DATE OF INSPECTION

We personally inspected the property on 2 August 2011.

3.0 TITLE DETAILS

The subject property is legally described as a portion of Section 1167 in the Hundred of Davenport, described within Certificate of Title Register Book Volume 5554 Folio 414

A copy of the Certificate of Title is appended to this report. A plan delineating the subject property from the balance of the Title is also appended.

VALUERS AND PROPERTY CONSULTANTS

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3.1 Registered Proprietor

Minister for Education and Children's Services.

3.2 Encumbrances

A notation is registered on the Title appurtenant to Section 1167, that it be used at all times as a reserve for school purposes. We note that the cinema portion of the building is not in conformity with this encumbrance. A large part of the balance of the buildings is now also utilised as administration offices, albeit in an educational context.

4.0 STATUTORY LAND USE CONTROLS

The property is situated in the Local Government Area of Port Augusta and is currently zoned "Recreational" by that Council. The objective of this zone is to accommodate community, sporting recreational and leisure activities. We consider that the current use of the property broadly conforms to the zoning.

A copy of the zoning regulations is appended to this report.

5.0 LOCATION

The property is situated on the northern corner of Carlton Parade and Eyre Highway in the regional city of Port Augusta, some 300 kilometres north of Adelaide. Eyre Highway is a main arterial road carrying high levels of passing traffic, being the main route through the city and onwards to Whyalla, Western Australia and the Northern Territory. Carlton Parade is a local collector thoroughfare carrying a moderate volume of traffic. The intersection on which the property is situated is equipped with traffic lights.

Surrounding development comprises predominantly the balance of the Port Augusta TAFE College, with Braddock Park, a complex of ovals and other recreational facilities, located to the immediate north of the property. To the south of the property are detached residences facing Carlton Parade.

6.0 SITE

The site is an irregular shaped parcel with a frontage to Carlton Parade of approximately 67 metres and to Eyre Highway of 121 metres. We estimate the total area of the site to be approximately 6,550 square metres. The topography of the site is flat.

All usual services are available and are connected to the site.

6.1 Contamination

We have visually inspected the site and have not become aware of any obvious site contamination issues. However we are not experts at identifying environmental hazards and an environmental audit may reveal matters which could affect our valuation. In such an event, we reserve the right to reconsider the conclusion of this report.

The previous use and history of the zoning changes on and around this site and any other relevant information, together with our own local knowledge does not place this property in any significant risk of being a 'contaminated site' under the Environment Protection Act. We are not aware of any Environmental Protection Audits being undertaken in relation to the site or in the area generally, however we consider the danger from proximity to contaminated sites to be low.

Attention is drawn to the 'Qualifications' section of this report.

7.0 IMPROVEMENTS

Erected over the site are two connected office/classroom and cinema buildings, described as follows:

7.1 Building 2



Description:	A single storey masonry framed building constructed in 1967 or thereabouts. Currently disposed as classrooms, administration and reception area, office accommodation, computer rooms and amenities. Approximate gross floor area is 944 square metres, plus a verandah along one side of 135 square metres.
Floors -	Reinforced concrete footings and slab incorporating carpet and vinyl sheet overlays.
Walls -	External walls are predominately face brick with steel framed glazing. Internal walling is a mixture of painted and rendered masonry and timber stud plasterboard and timber veneer lined with areas of minor glazing.
Roof -	Flat metal deck clad. Ceilings are of flushed plasterboard or acoustic fibre tile, with surface mounted fluorescent lighting.

VALUATION REPORT
TAFE College Site, Carlton Parade, Port Augusta

- Services - Electrical and plumbing reticulation, sanitary facilities, smoke detection, telephone cabling.
- Air Conditioning - The building is served with multiple ceiling mounted cassette type units, most of which are apparently over 20 years old. In the last 10 years it appears only two of the cassettes have been upgraded.

This is augmented by a number of split systems, with compressors located along the southern wall.

7.2 Building 2a



Main Building

VALUATION REPORT
TAFE College Site, Carlton Parade, Port Augusta



Cinema

- Description: A partly two storey masonry framed building constructed in 1972 or thereabouts. Currently disposed as classrooms, technical studies teaching areas, administration and reception area, office accommodation, computer rooms, and amenities.
- A connected part of the building is a former performing arts annex now utilised as a cinema.
- Approximate gross floor area is 2,543 square metres, plus verandahs of 117 square metres.
- Floors - Reinforced concrete footings and slab incorporating carpet and vinyl sheet overlays. The cinema has a built-in terraced seating platform, which we have treated as tenant's improvements.
- Walls - External walls are predominately face brick with steel framed glazing. Internal walling is a mixture of painted and rendered masonry and timber stud plasterboard and timber veneer lined with areas of minor glazing.

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- Roof - Gabled metal deck clad to the main building, with a skillion metal deck roof to the cinema portion. Ceilings are of flushed plasterboard or acoustic fibre tile, with both surface mounted and suspended fluorescent lighting.
- Services - Electrical and plumbing reticulation, sanitary facilities, smoke detection, telephone cabling. A stair chair has been installed in the central stairwell.
- Air Conditioning - The building is served by a single plant room based refrigerated air conditioning unit with a heating water boiler system located within a plant room on the ground floor. Large built up air handling units are located in the ground floor plant room areas and distribute conditioned air to the occupied spaces via in-ceiling sheet metal ducted systems.
- The cinema is provided separately with an air cooled chiller unit. Heating is provided from the main heating plant room which serves the rest of building 2A.

7.3 Building Services Audit

A building services audit was recently conducted by Bestec Consulting. We have been provided with a copy of this report. The original report should be referred to for detailed assessments of the building services that were surveyed by Bestec (mechanical, electrical, hydraulic, fire protection), however we summarise this as follows:

- Mechanical Services - In most respects, the mechanical services in both buildings are considered to be at the end of their useful lives. In particular, much of the air conditioning systems are original. In the case of the air conditioning system in the cinema, Bestec recommend replacement in its entirety.
- Electrical Services - The electrical services in the buildings was considered to be in a reasonable state, however some upgrading work is required to meet modern standards.
- Hydraulic Services - In most respects, the hydraulic services in both buildings are considered to be in a generally fair condition however some upgrading work is required to meet modern standards.

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Fire Protection - The fire protection services generally do not comply with current applicable codes and standards and an upgrade is required.

Bestec's estimates of cost in relation to the four building services are summarised below:

Service	Code compliance upgrade works (required)		Potential Upgrade Works	
	Building 2	Building 2a	Building 2	Building 2a
Mechanical			\$260,000	\$675,000
Electrical	\$105,000	\$39,000	\$195,000	\$74,000
Hydraulic	\$10,000	\$3,000	\$27,000	\$13,000
Fire Protection	\$41,000	\$75,000	\$15,000	\$2,000
SUB-TOTALS	\$157,000	\$117,000	\$498,000	\$764,000
Total Code compliance		\$274,000		
Total Potential upgrade				\$1,262,000
GRAND TOTAL				\$1,536,000

It should be noted that much of the 'potential' upgrading work is necessary, in particular the air conditioning, which is the largest cost in the above table.

In addition to the above, we were made aware of on-going problems with drainage around the cinema, chronic blocked sewer pipes caused by tree roots (with one cubicle of the women's toilets in the cinema closed due to permanent blockage), and minor structural problems in several places.

7.4 Site Improvements

The site further has areas of driveways and parking which are predominantly bitumen paved and kerbed. There is also certain site infrastructure, including a sewer pump that is situated adjacent to the Eyre Highway frontage.

8.0 VALUATION CONSIDERATIONS

The property comprises a portion of a somewhat dated, though still functional educational complex located in the regional city of Port Augusta. The property is situated on a prominent main intersection in the city, with good exposure to a large volume of passing traffic, particularly traffic driving through the city on Eyre Highway.

The buildings on the site are of a reasonably advanced stage in their life cycle, and require significant upgrading work now. There has been a change in use over the years also, with the performing arts area now a cinema and the balance of the buildings being predominantly administration offices rather than teaching areas. The upper level of Building 2a was refurbished in recent years for a Federal Government tertiary education scheme, however this is now utilised by DECS as offices. Similarly, the section between the cinema and the two storey building was upgraded for a mining education initiative within the last 10 years.

Buildings 2 and 2a appear to be well utilised, being occupied by DECS and University of SA, with the balance being retained by DFEEST for electrical trades teaching. The cinema is leased to a single tenant; we understand that the rent is approximately \$10,000 per annum, with the lessor paying all outgoings.

In assessing appropriate valuation methods, we consider that there are two methods available - capitalisation of imputed net income (whereby projected net rental income for the property is capitalised at an appropriate rate) and direct comparison/summation method, utilising available sales evidence to make direct inferences as to the subject property's likely value.

As a preliminary approach, we have estimated the market rent of the cinema.

8.1 Cinema Rent

The cinema's lease is due to terminate in June 2013 and we understand that DFEEST is unwilling to re-let the space due to the minimal rent and the operating expense. The cinema is not separately metered for services and the current tenant tends to leave the air conditioning running because the poor standard of the current system does not permit the space to reach a reasonable temperature within an acceptable time. Bestec confirm this, recommending replacement of the system. Heating is sourced from the building's central boiler plant located in the main part of the building.

A commercial lease will typically contain instructions to determining valuers in estimating the market rental of premises and our valuation herein also takes these principles into account:

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- 1) Exclude the value of any goodwill created by the Lessee's occupation and the value of the Lessee's fixture and fittings within the Premises;
- 2) Have regard in particular to any liability on the part of the Lessee to pay its contribution to the rates, taxes and outgoings payable;
- 3) Have regard to the current market rent of premises which are comparable with the Premises;
- 4) Take no account of any inducement, incentive, concession or other benefit (including rent free or rent discounted periods, fit-out costs, removal costs, or paying out or otherwise assuming liability for existing leases)
- 5) take into account the value of all the Lessor's fixtures, fittings, plant and equipment in the Premises and the value of any fit-out or other tenancy works provided by the Lessor.

We have generally adhered to the principles outlined above in our valuation.

We understand that the cinema has a capacity of 231 seats, with some 90 seats compliant with current standards. All of the latter seats are the lessee's fixtures and not included in this valuation. The balance are older style folding seats. In addition, we understand that alterations have been made to the seating substructure to accommodate the compliant seating and this has also been excluded from consideration in our rental estimate.

The operator currently runs two screenings on Wednesday, Thursday and Friday nights, with six screenings on Saturday and Sunday – a total of 18 screenings per week. More screenings occur in school holidays. We are advised that they saw some 35,000 patrons in 2010, at a charge of \$11 for adults and \$8 for children.

We have sourced approximate rental data for a number of smaller-style cinemas in South Australia. In most cases, the rent we have derived for these cinemas has been calculated by us based on an originally-negotiated rent, with CPI or other adjustments as per the lease. These comparables are summarised below:

Cinema	Est. Rent/ann.	Outgoings paid by	Screens	Screenings/wk.
WINDSOR- Brighton	\$25,000	Lessee	1	7
Trak Cinema	\$71,000	Lessee	3	99
Semaphore Odeon Star	\$76,000	Lessee	3	102
Oatmill, Mt Gambier	\$114,000	Lessee	3	67

Of these examples, the subject premises are most like the Windsor Cinema at Brighton, possessing a single screen and limited screenings per week. The subject premises have more screenings per week, a relatively 'captive' market, being situated in a remote regional city and few (or no) competing cinemas in its market area. However, the Windsor has a much larger

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population to draw on, being situated in Adelaide. On this basis, we would expect the subject premises' rent to be comparable to that of the Windsor. We note also the Oatmill in Mount Gambier, which has three screens, in a relatively old building. It is a much larger operation however is notable for being in a regional city. Its rent is substantially higher than the other two 3-screen cinemas above.

Based on these examples, we consider the market rent of the subject premises to be approximately \$20,000 per annum. We note that in all the above examples, the lessee pays all outgoings. We consider that this should also be the basis of rent for the subject premises, although we note that some of the services are sourced from the main building and would need to be established in such a way that they could be separately metered; most notably the electricity supply. This would also assume that the space was provided with a reliable source of conditioned air, and that the drainage/sewer blockage problems currently being experienced were permanently fixed.

8.2 Other Areas Rent

We have also estimated market rental rates that may be applicable to other portions of the property, as an input to the income valuation approach below. In doing so, we have researched rental rates applicable in commercial buildings in Port Augusta.

The commercial office market in Port Augusta has in recent years become stagnant in response to recent global events. Tenancy demand from the public and resources sectors have both declined marginally across most classes of property. Premium rents are currently ranging between \$140 - \$210 gross/m²/pa, while A grade accommodation ranges between \$130 - \$170 gross/m²/pa and B grade between \$100-\$130 gross/m²/pa depending on size of the tenancy, location and age and standard of accommodation.

We consider that the market rent of Buildings 2 and 2a are:

Building	Est. Net		
	LettableArea	Net Rent/sqm	Net Rent
Building 2	802	130	\$104,312
2a ground floor admin	284	140	\$39,746
2a Ground floor teaching	500	90	\$45,000
2a Ground floor ex-mining	280	140	\$39,200
Cinema	560	\$36	\$20,000
2a Upper level	646	160	\$103,360
TOTAL			\$351,618

We have allowed a 15% reduction in the area of the buildings to allow for common space, i.e. corridors, toilets, etc., which would not be able to be charged to individual tenants.

8.3 Income Capitalisation Approach

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In selecting an appropriate capitalisation rate, we have considered rates prevailing in the market today and the risk profile of the property. Yields for prime office space have softened to around 9.5% based on recent sales of large Adelaide CBD office buildings. Yields for secondary industrial type property currently range from 8.25 to 10.5%. The Hungry Jacks on Eyre Highway, a single 'blue-chip tenant' securely leased property, sold in 2009 for a yield of 8.9%.

We consider the risk profile for the property to be higher than for an average suburban office building or industrial factory/warehouse, with low expectation of long term capital gain. On the other hand, we note that the buildings are well suited to their current tenants and that DECS in particular appears in need of additional space. We have further assumed that DFEEST would lease back the areas they occupy. Given the secure nature of the resultant and have therefore adopted a capitalisation rate of 10.0%.

In relation to the upgrade expense, we have 100% of the code compliance costs as identified by Bestec and 75% of the potential upgrade costs to provide an allowance of approximately \$1,200,000 the amount necessary to sustain the assessed rents in the long term.

Our value calculation on this basis are tabled below:

TOTAL IMPUTED NET RENT		\$351,618
Capitalised @	10.0%	\$3,516,180
LESS upgrade cost (per BESTEC report)		
Say 100% code compliance + 75% potential upgrade		\$1,220,500
		<u>\$2,295,680</u>
	- rounded to	\$2,300,000

8.4 Direct Comparison/Summation Approach

As a second valuation method, we have also adopted a direct comparison approach whereby we have applied a rate per square metre derived from analysis of comparable sales, and appropriately adjusted this to reflect locational, building and size variances of the subject property. A listing of comparable sales in Port Augusta and our analysis of these is presented below:

<p>34 Flinders Terrace, Port Augusta</p> <p>Sold: 11/10 \$780,000 (Ex GST) Zoned: District Centre Land Area: 6,130 sqm Building Area: 791 sqm Rate/sqm Land: \$103 Analysed Rate/sqm Bldg: \$190</p>	<p>An ex-school with heritage buildings (which since the sale have been subdivided off the site and sold separately) located in the commercial precinct of Port Augusta. This site is currently being developed with a tilt-up concrete bulky goods retail building. We have analysed the land component at some \$630,000 which equates to \$103/sqm of land area. The buildings are original and heritage listed and after analyses equate to \$190/sqm of building area. Superior location to the subject property, inferior condition buildings.</p>
<p>30 Bond Street, Port Augusta West</p> <p>Sold: 5/10 \$1,070,000 Zoned: Residential Land Area: 2,035 sqm Building Area: 537 sqm Rate/sqm Land: \$150 Analysed Rate/sqm Bldg: \$949</p>	<p>A Child Care Centre with a modern building, circa 2008. This building has an area of 537 square metres on an allotment of 2,035 square metres. We have analysed the land component to \$305,000, which equates to \$275/sqm with the building comprising \$765,000 or \$1,425/sqm of building area. Superior condition modern building in an inferior location off the main road.</p>
<p>47 Eyre Highway, Port Augusta West</p> <p>Sold: 4/11 \$660,000 (Ex GST) Zoned: Highway Services Land Area: 5,434 sqm Building Area: 245 sqm Rate/sqm Land: \$121 Analysed Rate/sqm Bldg: \$0</p>	<p>A poor condition office/showroom located in a similar location to the subject propriety. The improvements add little value to the site. Overall good comparable.</p>

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<p>10 Eyre Highway, Port Augusta West</p> <p>Sold: 6/11 \$1,225,000 Zoned: Neighbourhood Centre Land Area: 2,995 sqm Building Area: 812 sqm Rate/sqm Land: \$180 Analysed Rate/sqm Bldg: \$840</p>	<p>A 1969 motel, which has undergone some upgrading subsequently. Total building area is some 812 square metres on an allotment of 2,995 square metres. The property is located on the main Eyre Highway. The premises are in an average condition. We have analysed the land component to equate \$540,000 with the buildings attributing \$685,000. Similar location.</p>
<p>24 Burgoyne Street, Port Augusta West</p> <p>Sold: 1/11 \$950,000 Zoned: Neighbourhood Centre Land Area: 2,260 sqm Building Area: 902 sqm Rate/sqm Land: \$150 Analysed Rate/sqm Bldg: \$675</p>	<p>A motel with 22 units located just off the Eyre Highway. The building is in an average to poor condition and the property overlooks a Mobil petrol station. Our assessed land component equates to \$150/sqm or \$340,000 with \$675/sqm of building area attributed to the improvements.</p>
<p>17 Stirling Road, Port Augusta</p> <p>Sold: 3/11 \$4,000,000 Zoned: Commercial Land Area: 7,580 sqm Building Area: 1,682 sqm Rate/sqm Land: \$100 Analysed Rate/sqm Bldg: \$1,500</p>	<p>An old hotel with a 1990s motel block located in an inferior mixed commercial/residential area of Port Augusta. The improvements are in a fairly good condition. Our assessed land value equates to \$750,000 or \$100/sqm with \$2,500,000 attributed to the improvements and licences.</p>
<p>2 National One Highway, Port Augusta</p> <p>Sold: 9/09 \$1,560,000 (Ex GST) Zoned: Highway Services Land Area: 8,571sqm Building Area: 314 sqm Rate/sqm Land: \$152 Analysed Rate/sqm Bldg: \$830</p>	<p>A Hungry Jacks restaurant located on the main highway. This property sold with a lease in place on a 12+5+5 term commencing in 2002 with a net rent of \$140,172 per annum. This indicates a yield of 8.9%. We have analysed the land to \$1,300,000 with \$260,000 attributed to the improvements.</p>

We have also analysed sale in the whole of South Australia to determine building values in properties with large site areas. Of particular note are:

<p>Lot 1 Magazine Road, Dry Creek</p> <p>Sold: 12/10 \$2,200,000 (Ex GST) Zoned: General Industry Land Area: 12,600sqm Building Area: approx 1,541 sqm Rate/sqm Land: \$113 Analysed Rate/sqm Bldg: \$500</p>	<p>A skills centre with good condition building circa 1980s located in an outer northern suburb of Adelaide. The property comprises 5 substantial buildings on a large allotment of 1.260 hectares.</p>
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<p>Lot 3 Saratoga Road, Elizabeth East</p> <p>Sold: 8/09 \$1,300,000 (Ex GST) Zoned: Residential Playford Land Area: 13,300sqm Building Area: approx 2,445 sqm Rate/sqm Land: \$70 Analysed Rate/sqm Bldg: \$150</p>	<p>An ex-school site which has since been developed with new buildings and completely upgraded existing buildings. This property is located in a mainly residential area with a total building area (at sale) of 2,445 square metres on a 1.330 hectare site.</p>
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Variances between the sales are attributable to building scale, quality, the need for upgrading, size and the quality of the location.

We have adopted a rate of \$180 per square metre for the subject property, indicative of a site value of \$1,180,000. In relation to the added value of improvements, we have adopted rates ranging between \$500 and \$650 per square metre for the improvements. A lower value has been attributed to the cinema portion, given its specialised nature and relatively low potential rent as outlined in 8.1 above. Our valuation by this approach may be summarised as follows:

Site Value		\$1,180,000
Added Value Attributed to Improvements:		
Buildings	\$2,060,000	
Site Improvements	<u>\$70,000</u>	
		<u>\$2,130,000</u>
Total Value		\$3,310,000
LESS Approximate upgrade cost		<u>\$1,200,000</u>
Net Value (rounded)		\$2,110,000

8.5 Comparison of Valuation Approaches

In estimating the value of the property, we have adopted two approaches, yielding very similar results. The summation approach is a simpler, more direct approach and is better grounded in the sales evidence; the capitalisation approach better models the most likely approach to the property of a purchaser in the event that the property was sold with leases in place, however also assumes that DFEEST would lease back their portion of the property. In the event that vacant possession was offered, the result of this method would be lower.

Taking both approaches into account, we have resolved to adopt a valuation for the property of \$2,200,000.

8.6 Valuation of Cinema as a Freestanding Site

This scenario assumes that the cinema could be divided from the remainder of the site in terms of separation of services and access to the car park.

The cinema represents a very substantial building, very costly to erect, however its rental potential as discussed in 8.1 above, is very low indeed. It has an area of approximately 560 square metres, and yet we have assessed its market rent as a cinema at approximately \$20,000 per annum plus outgoings, or only \$36 per square metre.

On a pure capitalisation of this rental amount, a very small valuation of \$200,000 or thereabouts would result. We consider that the cinema's value is much greater than this on a summation basis, as the land component alone would command a significant amount, being on one of Port Augusta's most prominent corners. The value of the site would depend on the area allocated to the cinema and the potential uses permissible under the "Recreation" zoning.

We envisage that a freestanding site for the cinema could be effected by means of a Community plan, whereby it would share access to services and rights to the adjacent car park at common property. We consider that the site area of the cinema's Community lot would be approximately 1,300 square metres.

As to the Recreation zone's limitations, we note that the following uses are non-complying in the zone: bank, hotel, industry, motor showroom, petrol filling station, and shop with a gross leasable area of greater than 200 square metres. It appears that commercial uses are largely consent uses in the zone. This suggests that one potential alternate use for the cinema building may be conversion to office space, with a minor retail component. Such a use would be able to take advantage of the property's high profile location.

Given the above discussion, our valuation estimate of the cinema on a freestanding basis may be summarised as follows:

Site Value		\$350,000
Added Value Attributed to Improvements:		
Buildings	\$220,000	
Site Improvements	<u>\$0</u>	
		<u>\$220,000</u>
Total Value		\$570,000

It should be noted that this valuation is of the property in its current condition and recognising that considerable expenditure is required on the building. If the Bestec costings for building 2a are allocated to the cinema on a pro-rata basis, expenditure in the order of \$190,000 is

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required on top of the above valuation. If an alternate use could be found that matches the high-profile nature of the site, adaptation of the building to this use would be at an additional cost again, although some of the above \$190,000 would be absorbed in this conversion cost.

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9.0 VALUATION

Taking into account all relevant factors, and with due consideration to sales of comparable properties, we consider the fair market value of the subject property for property advisory purposes, as at the date of inspection, to be the sum of:

9.1 Valuation of The Subject Property as a Whole:

TWO MILLION, TWO HUNDRED THOUSAND
DOLLARS (\$2,200,000)

9.2 Market Rental Valuation of Cinema:

TWENTY THOUSAND DOLLARS PER ANNUM, (\$20,000 P.A.)
NET (I.E. PLUS ALL OUTGOINGS)

9.3 Valuation of the Cinema as a Freestanding Site:

FIVE HUNDRED AND SEVENTY THOUSAND
DOLLARS (\$570,000)

9.4 GST Implications

In analysing the sales data, we have necessarily applied subjective judgement as to whether GST was included in the sale price. Where we believed that GST was a component to the declared sale price, we have adjusted the amount accordingly.

Thus, all sales are analysed on a common basis and in reaching those conclusions drawn from observation of the sales data to the subject sites, we have derived valuations that we consider the market is prepared to pay when GST is not relevant to the vendor or the purchaser.

VALCORP AUSTRALIA PTY LTD



Digitally signed by Andrew Lucas
DN: CN = Andrew Lucas, C = AU,
O = Valcorp Australia Pty Ltd
Reason: I am the author of this
document
Date: 2011.08.08 12:21:56
+09'30'

ANDREW LUCAS
M.B.A., Dip.Acc., B.App.Sc.(Val.), A.A.P.I.,
C.P.A., Certified Practicing Valuer

10.0 QUALIFICATIONS

We have not carried out a structural survey of the improvements, and any opinion given as to the condition of any improvements on the property is not given in the capacity as an expert. This report is not a structural survey.

We have not examined the improvements for signs of timber infestation. This report does not make any allowance for contamination or pollution of the land which may have occurred as a result of past usage, with the exception of those noted in the body of the report. Consequently, should any of these matters be found to exist, the report should be referred back to Valcorp for reappraisal.

Real estate values vary from time to time in response to changing market circumstances and it should therefore be noted that this valuation is based on available information as at the date of valuation. No warranty can be given as to the maintenance of this value into the future. It is recommended that the valuation be reviewed periodically.

Assumptions are a necessary part of this valuation. Valcorp Australia adopts assumptions because some matters are not capable of accurate calculation, or fall outside the scope of our expertise, or our instructions. The risk that any of the assumptions adopted in this document may be incorrect should be taken into account. Whilst reasonable care is taken to ensure that assumptions are soundly based, Valcorp Australia does not warrant or represent that the assumptions on which this valuation is based are accurate or correct.

This document contains information which is directly derived from other sources without verification by us including but not limited to tenancy schedules, planning documents and environmental or other expert reports. Further, the information is not adopted by Valcorp Australia as our own, even where it is used in our calculations. Where the content of this document has been derived, in whole or in part, from outside sources, Valcorp Australia does not warrant or represent that such information is accurate or correct.

To the extent that this document includes any statement as to a future matter, that statement is provided as an estimate and/or opinion based on the information known to Valcorp Australia at the date of this document. Valcorp Australia does not warrant that such statements are accurate or correct.

The identity of private vendors and purchasers and the GST status of transactions are not revealed in the Government sales data provided to us. Whilst reasonable efforts are made to eliminate sales from our analysis that do not conform with the definition of value contained in 1.0 herein, Valcorp cannot warrant the veracity of sales upon which our judgements are based.

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Neither the whole nor any part of this report, nor any reference thereto may be included in any published document, circular or statement or published in any way without our written approval of the form and context in which it may appear.

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