

Mandarin Centre

ASSESSMENT OF RETAIL, RESIDENTIAL & OFFICE DEVELOPMENT OPTIONS



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June 2014

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EXECUTIVE SUMMARY

Blue Papaya Pty Ltd and Mandarin Developments Pty Ltd are seeking to redevelop the Mandarin Centre, Chatswood to revitalise its retail offer and to provide upper levels of residential apartments.

Urbis has been appointed by Blue Papaya Pty Ltd and Mandarin Developments Pty Ltd to assess the future demand for retail, residential and commercial uses in Chatswood and in the Mandarin Centre site in particular.

Our analysis suggests that the market can support additional retail and residential uses on the Mandarin Centre site in Chatswood. However, significant commercial office floorspace is unlikely to be supportable in the Mandarin Centre location.

Retail

- The Chatswood CBD trade area can support additional retail floorspace
- Benchmarking the current supermarket and discount department store floorspace per population provision in the Chatswood CBD retail trade area against the average in Sydney suggests a current under provision in Chatswood
- In addition to the current under provision in retail floorspace within the Chatswood CBD trade area, strong future population and retail spend per capita growth will fuel demand for additional retail floorspace
- The addition of a supermarket and/or discount department store at the Mandarin Centre could support additional specialty and non-retail floorspace (based on benchmarking with Urbis retail averages) suggesting future market scope to expand the existing 6,100 sq.m of retail floorspace to 13,800 sq.m
- The existing major centres in Chatswood are focused on discretionary spending – leaving scope for Mandarin Centre to position its retail offer more towards a convenience focus
- The expansion and improvement of retail at the Mandarin Centre can also generate a number of economic benefits, including:
 - Employment creation (333 direct and 265 indirect full-time, part-time and casual ongoing jobs)
 - Improvement in amenity, convenience and enhanced choice for residents
 - Broadening the draw of the Chatswood CBD retail offer and improving the retention of retail spending within Chatswood
 - The proposed development will improve confidence in the Chatswood CBD as a strong location for investment and employment
 - Council will be able to levy Section 94 contributions which can contribute towards meeting Council's objectives for community facilities and infrastructure

EXECUTIVE SUMMARY Cont. . .

Residential

- The Mandarin Centre site presents a strong location for the development of apartments
- Attached new dwelling approvals have seen an increasing trend in Sydney and have already been the dominant dwelling type in the Willoughby LGA and Chatswood since 2001
- Population growth within the Willoughby LGA is driven by overseas migrants from high density Asian cities and “empty nesters” fuelling demand for smaller format residential products
- There is strong demand for high density residential dwellings within the Chatswood CBD, in particular one and two bedroom apartments
- The Mandarin Centre is a strong location for apartments given its strong public transport access, attractive views, high amenities and proximity to the Chatswood CBD commercial core
- Despite strong demand, there are limited new residential developments in the pipeline within the Chatswood CBD
- The proposed 260 units at the Mandarin Centre will also help deliver the Sydney Metropolitan and Willoughby's City Strategies' dwelling targets

Commercial

- The market is unlikely to be able to support a significant provision of commercial office space in the Mandarin Centre location
- The Sydney office market is soft and likely to remain so over the medium term
 - Vacancy rates are quite high in suburban office precincts averaging above 10%
 - Vacancy rates in the Sydney CBD office market are also high, averaging 9%
 - Modest level of economic growth likely to continue for some time
- The high vacancy rates and pipeline of an extensive provision of commercial office space within the Sydney CBD is pushing incentives up and exerting downward pressure on rents
 - For example, the Barangaroo development will add over 300,000 sq.m NLA of commercial office space to come on line starting in 2016
- Lower rents and proximity to customer markets are the key location drivers for office tenants
- The high incentives and relatively low office rents within the Sydney CBD are attracting some to relocate back into the city from the suburbs
 - A number of office users in St Leonards, Macquarie Park, Chatswood and Parramatta have relocated/or plan to relocate back into the city
- The market is responding by the lack of a pipeline of any significant commercial office developments in Chatswood

PROJECT BRIEF

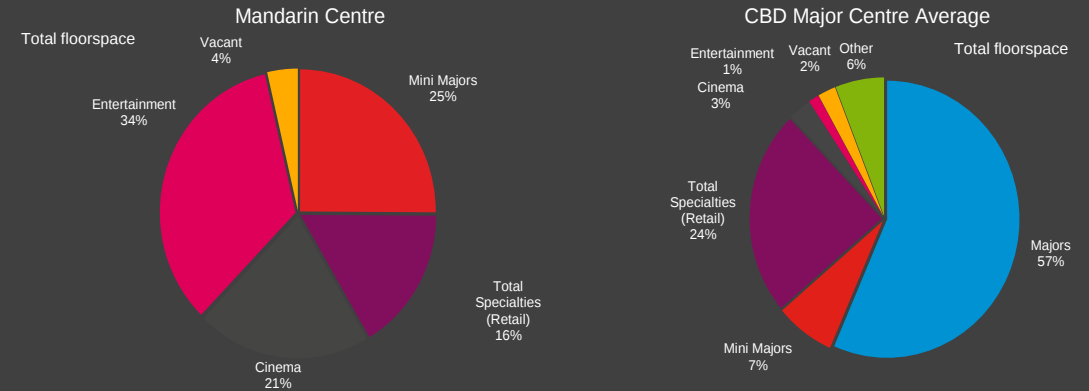
- Blue Papaya Pty Ltd and Mandarin Developments Pty Ltd plan to redevelop the Mandarin Centre in Chatswood by revitalising its retail offer and providing residential apartments in the upper levels
- Urbis has been appointed by the Blue Papaya Pty Ltd and Mandarin Developments Pty Ltd to assess whether the market can support retail, residential and commercial uses in the Mandarin Centre location
- The rest of the report comprises of the following:
 - Section 1 presents the outcomes of the retail market demand assessment
 - Section 2 covers the residential demand assessment
 - The commercial office market is covered in Section 3

The Mandarin Centre, Chatswood

- The Mandarin Centre is around one third the size of a typical CBD Major centre
- The centre's high provision of cinema and entertainment space reflects its original role as an entertainment complex
- 5,600 sq.m retail floorspace is provided over three levels (foodcourt plus specialty & mini majors)

Floorspace Composition

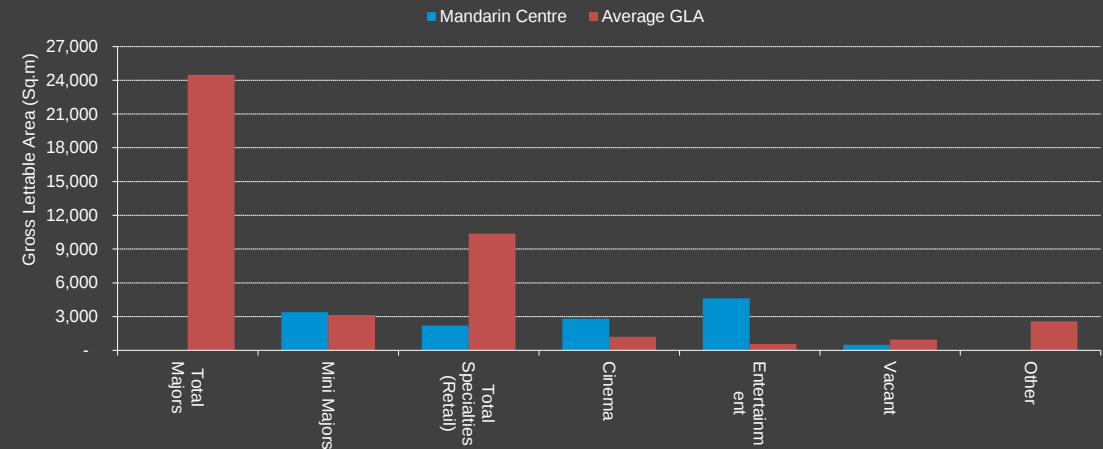
MANDARIN CENTRE VS CBD MAJOR CENTRE AVERAGE



Source : Urbis Retail Averages 2012

Centre Size

MANDARIN CENTRE VS CBD MAJOR CENTRE BENCHMARK



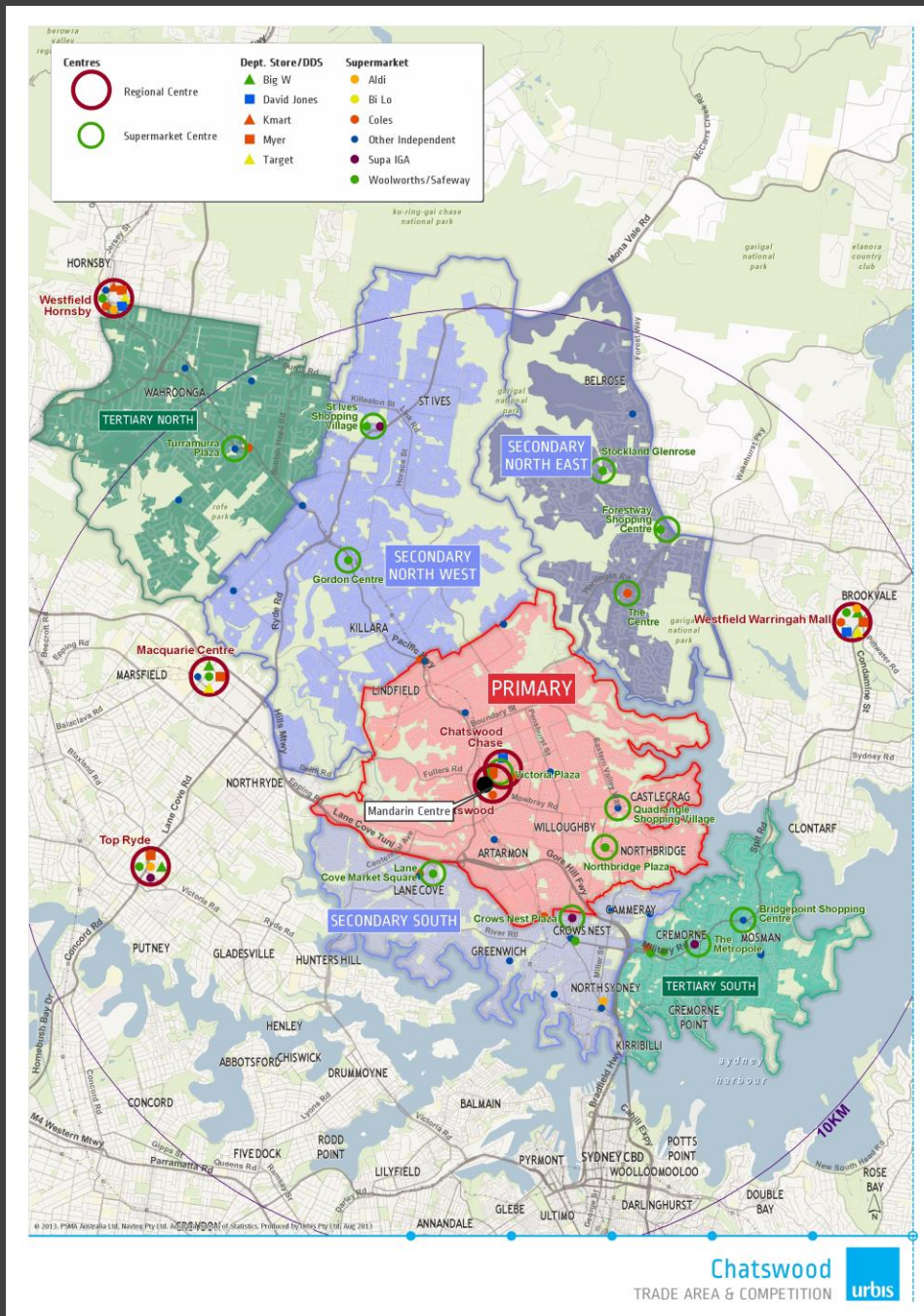
Source : Urbis Retail Averages 2012

The Mandarin Centre, Chatswood Issues



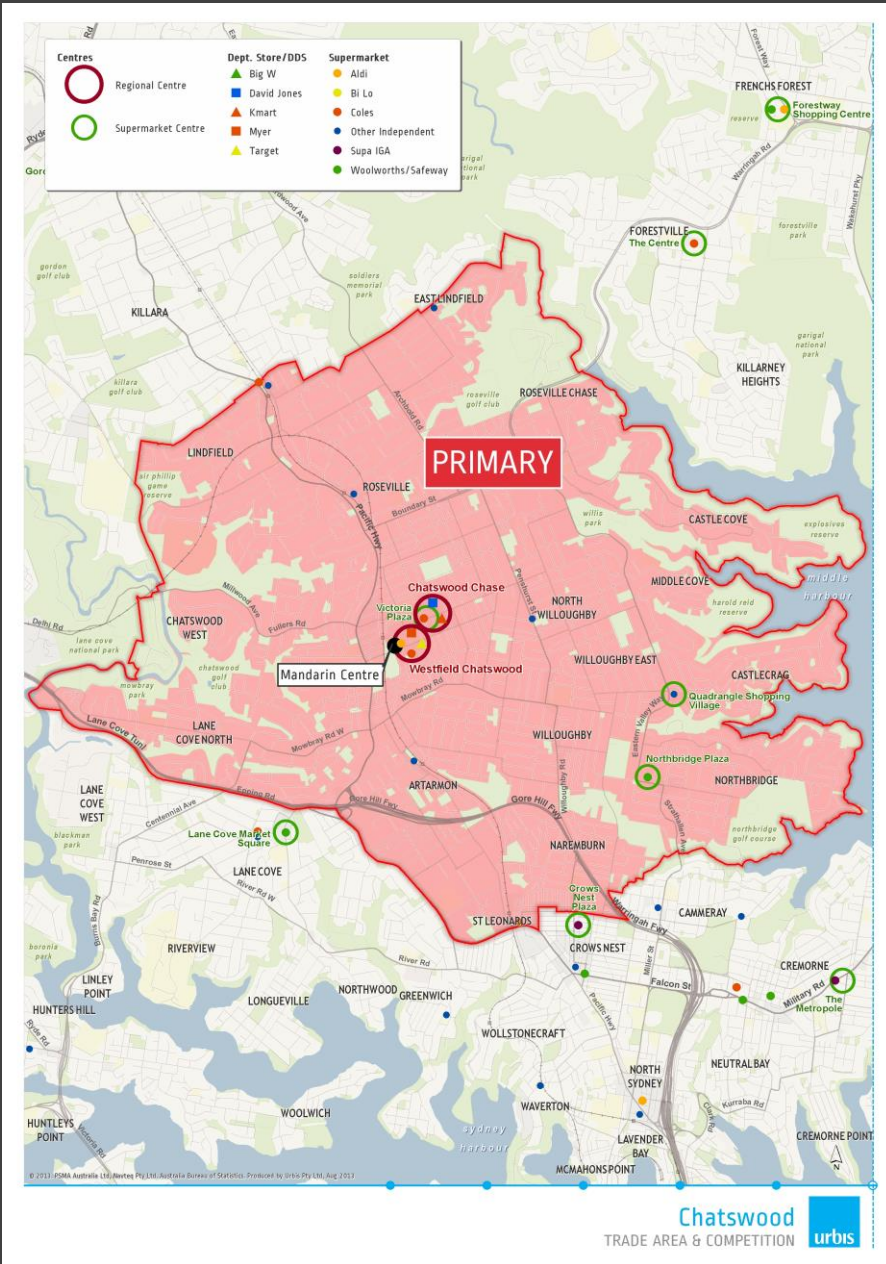
- The Mandarin Centre requires substantial investment to improve its presentation and to broaden its appeal within the competitive Chatswood market
- Issues with the centre include:
 - Lack of anchors
 - Poor vertical transportation/connection between 5 floors
 - Poor street activation/pedestrian flow
 - Difficult base building layout

Chatswood CBD retail trade area and provision



- A retail trade area considers how far people are likely to travel to regularly visit Chatswood over competing higher order centres
- Trade area extent is influenced by:
 - The size and appeal of the centre
 - Competing retailing
 - Accessibility
 - Physical barriers (rivers, freeways etc)
- **Chatswood CBD Trade Area:**
- **Primary Trade Area** – Willoughby LGA plus Lindfield
- **Secondary Trade Area**
 - *North East:* Belrose, Frenchs Forest, Forestville, Kilarney Heights Accessible via Warringah Road
 - *North West:* Ku-ring-gai LGA as far as Avondale & Pymble golf courses
 - *South:* Lane Cove LGA, St Leonards and Cammeray
- **Tertiary Trade Area**
 - *North:* Balance of Ku-ring-gai LGA plus Hornsby east of railway line
 - *South:* Neutral Bay, Cremorne, Mosman, Kirribilli

Chatswood CBD primary trade area



- Retail in Chatswood is dominated by Westfield Chatswood and Chatswood Chase
- These centres contain a high provision of fashion and discretionary retailing
- Both centres include department stores, DDSs and supermarkets although supermarkets are limited in size (both Coles supermarkets are less than 3,500 sq.m)
- The convenience offer within Chatswood CBD is limited
- Smaller supermarket-based centres are located throughout the trade area
- The closest Woolworths supermarket is Lane Cove
- Westfield Hornsby, Warringah Mall, Macquarie Centre and Top Ryde are the nearest competing higher order centres beyond the trade area
- Mandarin Centre currently performs a niche role in Chatswood as a leisure based centre with an Asian retail theme
- Given the spending growth in the market there is scope to broaden its positioning and appeal

Size of the population within the Chatswood CBD trade area

	Current	Forecast Population		
	2013	2016	2021	2026
Primary	98,800	101,500	105,200	108,300
Secondary				
North East	28,900	29,200	29,600	29,900
North West	57,600	60,400	63,200	65,400
South	61,600	63,300	66,400	68,500
Main Trade Area	246,900	254,400	264,400	272,100
Tertiary				
North	47,200	48,800	50,800	52,300
South	62,100	62,500	63,300	63,900
Total Trade Area	356,200	365,700	378,500	388,300

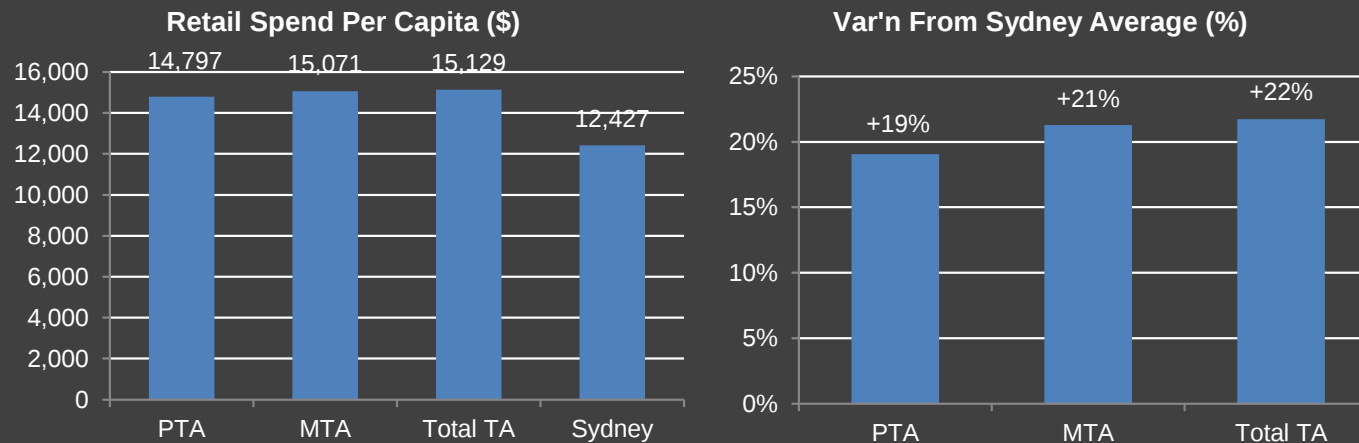
Source: ABS Census 2011, Forecast ID, NSW Department of Planning & Infrastructure, Urbis

- Chatswood CBD serves a large trade area of 356,000 residents growing to 388,000 by 2026
- There is a high concentration of resident population within the primary trade area
- The large and growing primary trade area population is 98,800 growing to 108,300 by 2026
- The main trade area population is forecast to grow from 246,900 to 272,000 by 2026
- In addition, Chatswood CBD has access to a large tertiary trade area sector, in excess of 100,000 people

Spend per capita

Retail Spending Per Capita Var'n From Sydney B'mark, 2012

CHATSWOOD TRADE AREA



Source: MDS, MarketInfo 2010; ABS, Australian National Accounts: National Income, Expenditure and Product Accounts (5206.0); Urbis

- Per capita retail expenditure in the Chatswood trade area is significantly above the Sydney average signifying a strong propensity to shop
- Per capita spend is based on information on MarketInfo which looks at households' propensity to spend on particular commodities and socio-economic characteristics

Benchmarking retail provision

	Floorspace per 100 population		
Trade Area	All supermarket	Discount Department Store	Department Store
Primary	21.8	15.6	43.8
Main (Primary + Secondaries)	23.0	6.3	17.6
Total (Main + Tertiaries)	21.6	4.3	12.2
Sydney Benchmark	27.1	13.5	12.4
Source: Urbis			

- Benchmarking against the Sydney average suggests that there is currently a shortfall in supermarket floorspace in all Chatswood CBD retail trade area sectors
- Although discount department store provision is high within the primary trade area (where the DDS stores are located), on the whole there seems to be an under provision across other trade area sectors
- Across the trade area, department store provision is generally in line with the Sydney benchmark (Myer and David Jones are both in Chatswood and serve a broad area)
- This under provision in supermarket and discount department store floorspace, combined with forecast spending growth, suggests the potential market supportability for additional retail floorspace to meet the current shortfall and growing demand

Strong growth in available retail spend by product group

	Resident Available Expenditure (\$ 2013)							
	Food Retail	Food Catering	Apparel	Home-ware	Bulky Goods	Leisure/General	Retail Services	Total Retail
2013	\$2bn	\$895m	\$573m	\$405m	\$463m	\$692m	\$273m	\$5.4bn
2016	\$2.2bn	\$954m	\$620m	\$455m	\$507m	\$574m	\$296m	\$5.75bn
2021	\$2.3bn	\$1bn	\$690m	\$573m	\$594m	\$894m	\$350m	\$6.4bn
2026	\$2.4bn	\$1.15bn	\$764m	\$715m	\$689m	\$1bn	\$411m	\$7.15bn

Source: MDS, MarketInfo 2010; Urbis

- Available retail spending in the trade area is forecast to grow substantially from \$5.4bn in 2013 to \$7.15bn in 2026
- Spending growth is driven by a combination of population growth and real spending growth (excluding inflation)
- Strong spending growth is forecast in all retail categories creating demand for additional retail floorspace

Demand for additional supermarket floorspace

	Supermarket					
	Total food & grocery spending growth	Including liquor, general merchandise & Spend from beyond Trade Area	Target Turnover rate		Additional Supermarket Floorspace Capacity	
			Average	Sustainable	Average	Sustainable
2013-16	\$35m	\$46m	\$11,300	\$7,500	+4,000 sq.m	+6,100 sq.m
2021	\$43.5m	\$58m	\$11,300	\$7,500	+9,200 sq.m	+13,900 sq.m
2026	\$37m	\$49m	\$11,300	\$7,500	+13,600 sq.m	+20,500 sq.m

Source: MDS, MarketInfo 2010; Urbis

- Analysis suggests that retail spending growth within the Chatswood CBD retail trade area can support additional supermarket floorspace in Chatswood

+4,000 to +6,100 sq.m by 2016
 +13,600 to +20,500 sq.m by 2026

Demand for additional discount department store floorspace

	Discount department store (DDS)			
	Total general retail spending growth	Including food and grocery & spend from beyond trade area	Target Turnover rate	Additional Floorspace Capacity
2013-16	\$30m	\$33m	\$3,200	+10,300 sq.m
2021	\$62m	\$64.5m	\$3,200	+31,700 sq.m
2026	\$70m	\$76.5m	\$3,200	+55,700 sq.m

Source: MDS, MarketInfo 2010; Urbis

- Analysis suggests that spending growth can support additional discount department store (DDS) in Chatswood
 - +10,300 sq.m by 2016
 - +55,700 sq.m by 2026
- The addition of a DDS and a larger supermarket at the Mandarin Centre could also support additional retail specialty and mini major floorspace
- Metropolitan DDS based centres typically provide more supermarket floorspace (5,900 sq.m), more mini major (1,500 sq.m) and more specialty retail floorspace (4,900 sq.m) as well as additional non-retail floorspace
- The existing provision of destinational uses at the Mandarin Centre (cinema, club, leisure uses) and CBD location may generate additional custom which could support additional retail floorspace

Indicative future supportable retail floorspace – Mandarin Centre

- Trade area analysis indicates that the Chatswood market can support additional supermarket and DDS floorspace
- The potential addition of a supermarket and/or DDS anchor tenants at the Mandarin Centre could support additional specialty and non-retail floorspace (based on benchmarking with Urbis retail averages)
- Indicative centre composition, based on alignment with retail averages is shown below
- The existing major centres in Chatswood are focused on discretionary spending – there may be scope for Mandarin Centre to position its retail offer more towards a convenience focus

Component	Existing (sq.m)	With DDS and supermarket (sq.m)
DDS		6,000
Supermarket		2,500
Specialty & mini major	6,100	5,300
Total retail (ex vacant)	6,100	13,800
Additional non-retail		2,500
Plus existing entertainment	7,400	7,400
Total floorspace	13,500	23,700

Potential Employment Benefits

- Increasing the retail provision at the Mandarin Centre can potentially generate an additional 333 direct full-time, part-time and casual ongoing jobs and an additional 265 indirect jobs
- The majority of the direct jobs are likely to be filled by local residents and located within the Mandarin Centre
- Indirect jobs are likely to be created elsewhere in the economy from backward linkages supporting the direct jobs, i.e. increase in jobs involved in the manufacturing of food products generated by increased demand from the addition of a supermarket at Mandarin Centre

Potential Direct Employment Generation			
	Existing Employment	Employment with DDS and Supermarket	Net Additional Employment
Discount Department Store		141	+141
Supermarket		102	+102
Specialty & mini major	132	115	-17
Total retail (ex vacant)	340	358	+226
Non-retail shops		107	+107
Entertainment	87	87	
Total centre	219	552	+333
Source: Urbis			

Economic Benefits from Improving Retail at the Mandarin Centre

The improvement of retail provision at the Mandarin Centre can be expected to generate a number of economic benefits for the community including:

- Employment creation
- Improvement in amenity, convenience and enhanced choice for residents
- Broadening the draw of the Chatswood CBD retail offer which can improve the retention of retail spending
- The proposed development will improve confidence in the Chatswood CBD as a strong location for investment and employment
- Council will be able to levy Section 94 contributions which can contribute towards delivering Council's objectives for community facilities and infrastructure

Mandarin Centre indicative residential development proposal

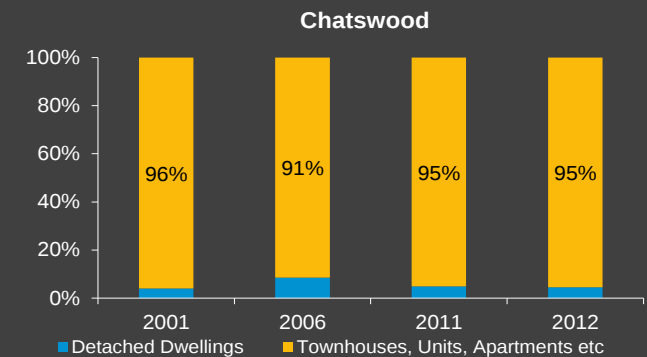
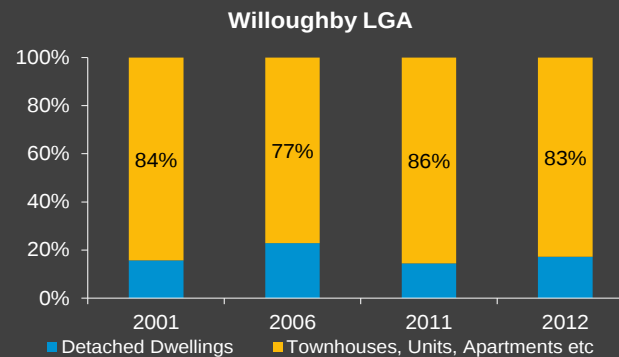
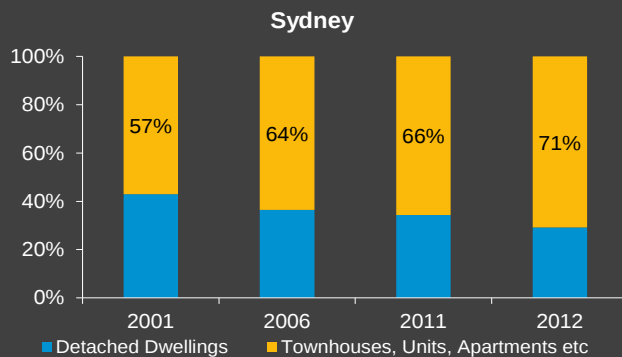
- A residential tower with an indicative 260 apartments
- Ideally located in close proximity to CBD amenities including public transport, Chatswood's retail precinct, schools and hospital
- This development can meet the growing demand for apartments in Chatswood and assist in delivering Willoughby's Council's new dwelling targets of +6,800 by 2031

Trend in new dwelling approvals

- New Dwelling Approvals (NDA) have shown an increasing trend in attached dwellings (townhouses, units and apartments) across the Sydney GMA
- The strong preference for attached dwellings in the Willoughby LGA and in Chatswood has been around for over a decade

Changing Housing Preferences - Sydney, Willoughby LGA and Chatswood

NEW DWELLING APPROVALS, 2001-2012



Source: ABS Building Approvals Cat. 8371.10; Urbis

Population growth, 2001 to 2011

- The population has been growing at a faster rate in the Willoughby LGA compared to the average for the Sydney GMA, averaging 1.4% versus 1% per annum over 2001-2011
- International migration to the Willoughby LGA from high density cities has been particularly high, (China, Hong Kong, Korea and Singapore) have increased by 20% over the decade
- The share of “couples with no dependant children” and “one parent with no dependent children” households in Chatswood has almost doubled over 2001 to 2011 from 13% to 23% of all households at the expense of the contraction in households with dependent children
- Migrants from high density Asian cities and empty nesters continue to fuel demand for smaller format residential products

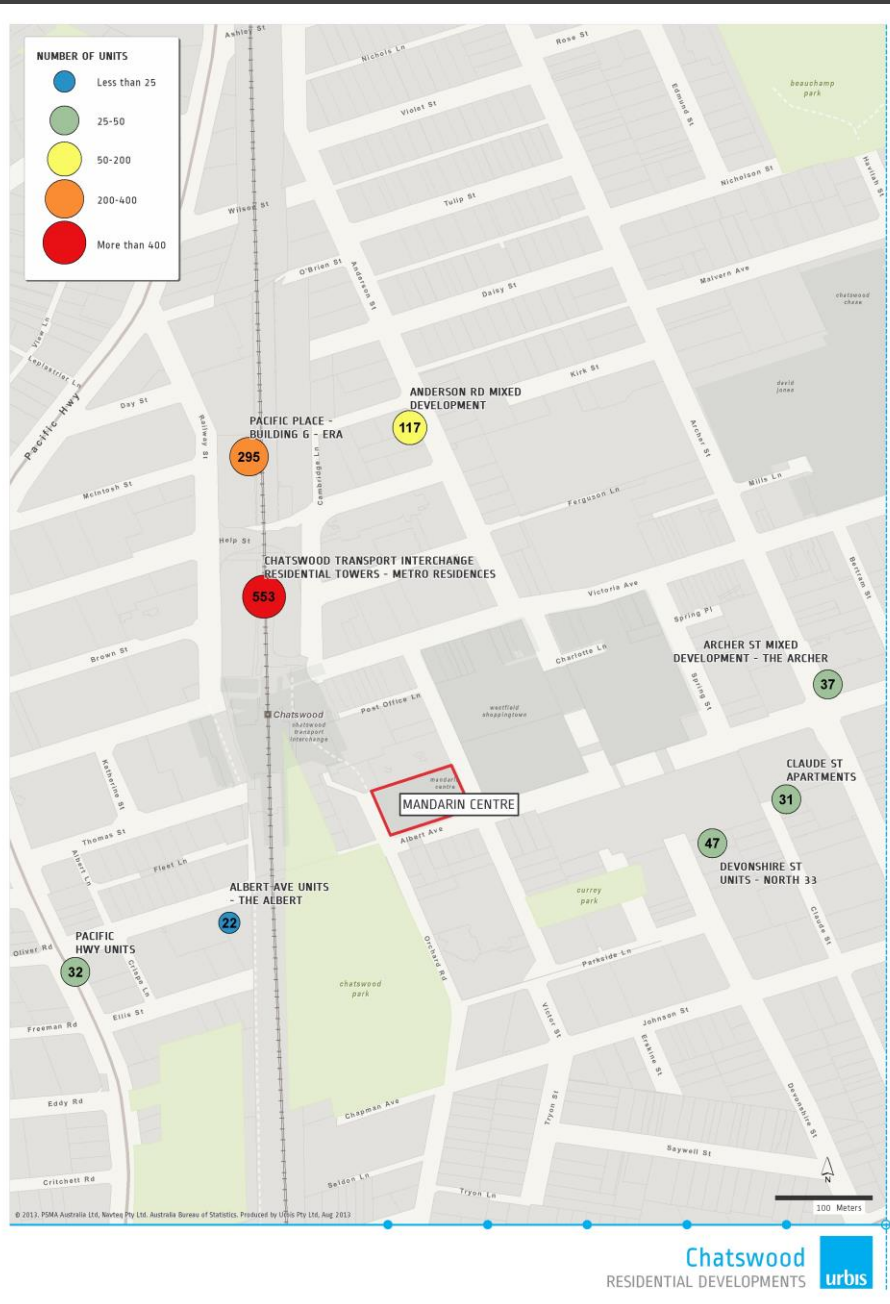
Drivers of successful apartment developments

Driver	Proposed Mandarin Centre residential development	
	Description	Rating
Amenity	The Mandarin Centre is located within the Chatswood CBD in close proximity to: • The retail precinct including Victoria Avenue, Chatswood Chase and Westfield Chatswood • Proximity to Hironnelle private hospital • Schools in the surroundings, private and public • Proximity to the Concourse which includes the Civic Centre, concert halls, library and public open space	Strong
Views	Good visual amenity with views to the parks adjacent to the Mandarin Centre	Strong
Public Transport Access	The Mandarin Centre is located adjacent to the Chatswood railway station and bus interchange	Strong
Affordability	The median unit price in Chatswood as at July 2013 is \$692,000, significantly below the Willoughby LGA median unit price of \$760,000 and Sydney's median unit price of \$827,500 (RP Data). However, the price of detached dwellings in the outer suburbs of Sydney are still below the median for a unit in Chatswood.	Moderate
Surrounding Land Uses	The site is located within close proximity to other high density residential buildings, both established and in development. The site represents an ideal opportunity for a similar residential development within the Chatswood CBD	Strong
Product Mix	The indicative 260 units would include a mix of one, two and three bedroom apartments. Recent developments have demonstrated strong sales with apartments with two bedrooms or less within the Chatswood CBD	Strong
Quality and style of housing product	Mirvac's Era and ISPT's Metro Residences developments have set the benchmark for design, style and quality. The proposed residential on the Mandarin Centre site must produce a comparably high quality product in keeping with the upmarket residential nature of the area.	Potentially Strong

- The Mandarin Centre presents a strong location for apartments

Strong demand for apartments in Chatswood

- Strong demand for high density residential within the Chatswood CBD:
- **Era**
 - Fifth and final residential tower in Pacific Place
 - 295 apartments
 - To be completed early 2014
 - Sold out
- **Metro Residences**
 - 553 apartments over 3 towers
 - To be completed in October 2013
 - Tower 2 and 3 sold out
 - Only 3 and 4 bedroom residences available in tower 1



Willoughby Council and sub regional dwelling targets

Strategy / Document	Target	Implications for the proposed residential development at the Mandarin Centre
Draft Metropolitan Strategy for Sydney	Contribute towards additional 82,000 dwellings between 2001 - 2021 (and 138,000 new dwellings by 2031) within the Central subregion	The proposed development of 260 apartments at Mandarin Centre site will contribute to achieving Sydney's new dwelling target of 82,000 by 2021
Inner North Draft Sub Regional Strategy (To be replaced by draft central subregion strategy in 2014) and Willoughby City Strategy 2013-2029	6,800 new dwellings between 2007 - 2031 within the Willoughby LGA	To achieve the new dwelling targets of 6,800 by 2031, 280 new dwellings need to be approved every year. The proposed development of 260 apartments at the Mandarin Centre site can help deliver approximately one year of supply.
	No decrease in E4 zones and conservation areas	The proposed development would have minimal impact on conservation areas and E4 zones, thereby retaining the character of the Willoughby LGA
	Plan for medium and high density housing outside the commercial core of Chatswood Major centre	The Mandarin Centre is located on the periphery of the commercial core of Chatswood and is ideally located to contribute to housing targets whilst providing high amenity without impacting on Willoughby's character

- The proposed residential development at the Mandarin Centre site is consistent with Government policy priorities at the metropolitan and local levels

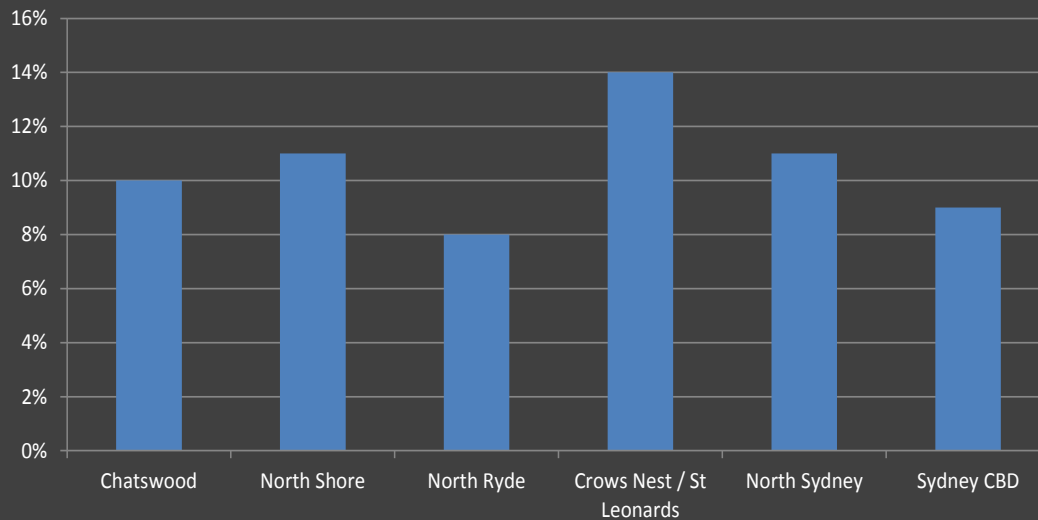
Residential conclusion

- The Mandarin Centre site presents a strong location for the development of apartments
- Attached new dwelling approvals have seen an increasing trend in Sydney and have already been the dominant dwelling type in the Willoughby LGA and Chatswood since 2001
- Population growth within the Willoughby LGA is driven by:
 - Overseas migrants from high density Asian cities
 - Influx of “couples or one parent without dependent children” likely to be *empty nesters*
- Migrants from high density Asian cities and empty nesters continue to fuel demand for smaller format residential products
- There is strong demand for high density residential dwellings within the Chatswood CBD, in particular, one and two bedroom apartments
- The Mandarin Centre development is a strong location for apartment given its strong public transport access, attractive views, high amenities and proximity to the Chatswood CBD commercial core
- Despite strong demand, there are limited new residential developments in the pipeline within the Chatswood CBD
- The proposed 260 units at the Mandarin Centre will also help deliver the Sydney Metropolitan Strategy and Willoughby's City Strategy dwelling targets

Office market

Office Vacancy Rate

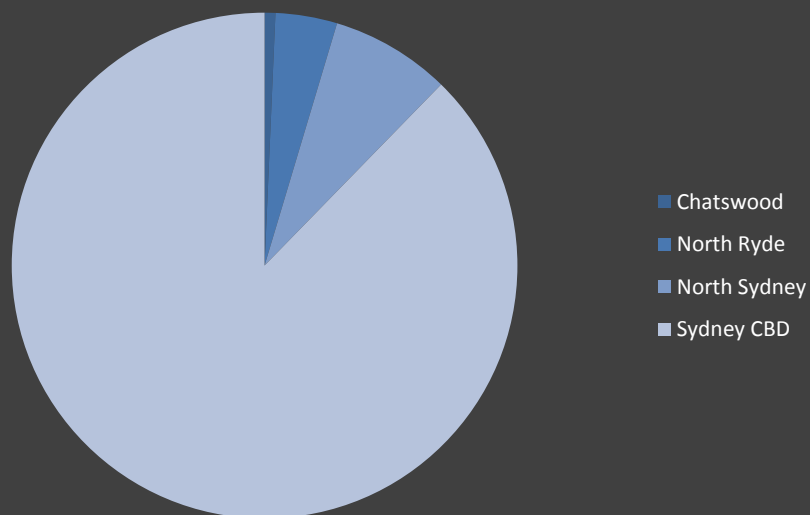
MAJOR SYDNEY CBDS (AS AT JULY 2013)



Source: PCA Office Market Report, Urbis

Office Space Development Pipeline

MAJOR SYDNEY CBDS (AS AT JULY 2013)



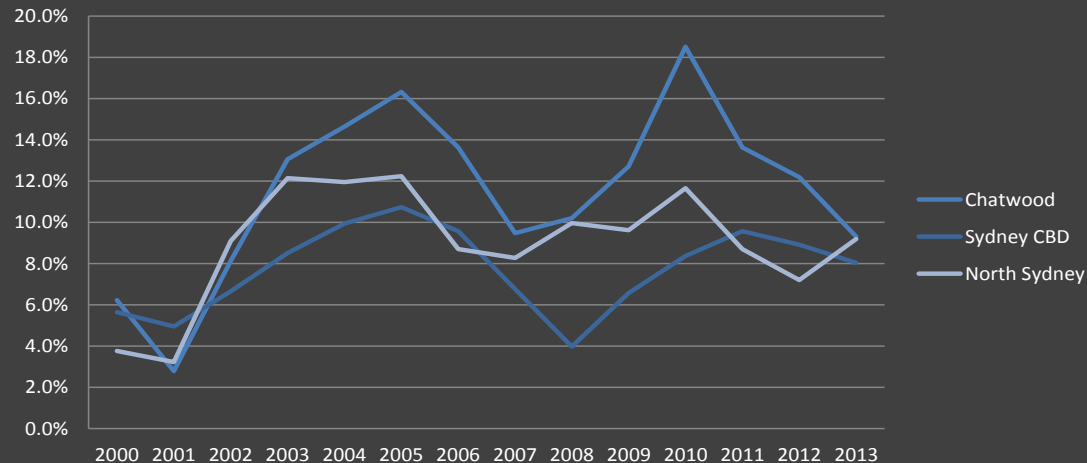
Source: PCA Office Market Report, Urbis

- Soft market conditions with average office vacancy rates high at >10% in all suburban locations, except North Ryde (8%)
- Average office vacancy rate already high in the Sydney CBD at ~9% even before substantial office space comes on line including more than 300,000 sq.m NLA in Barangaroo starting in 2015/16
- The high incentives and relatively low office rents within the Sydney CBD is attracting a number of organisations to relocate back into the city from the suburbs
 - A number of office users in St Leonards, Macquarie Park, Chatswood and Parramatta have recently relocated/or plan to relocate back into the city
- Chatswood office market, like the rest of Sydney, is soft with a current average vacancy rate of 10%
- Poor investor confidence in Chatswood office market evident in its limited share of Sydney's office space development pipeline
- The Barangaroo development in the Sydney CBD is likely to push office vacancy up both within the city and the suburban office markets including Chatswood

Chatswood office market

Office Vacancy Rate

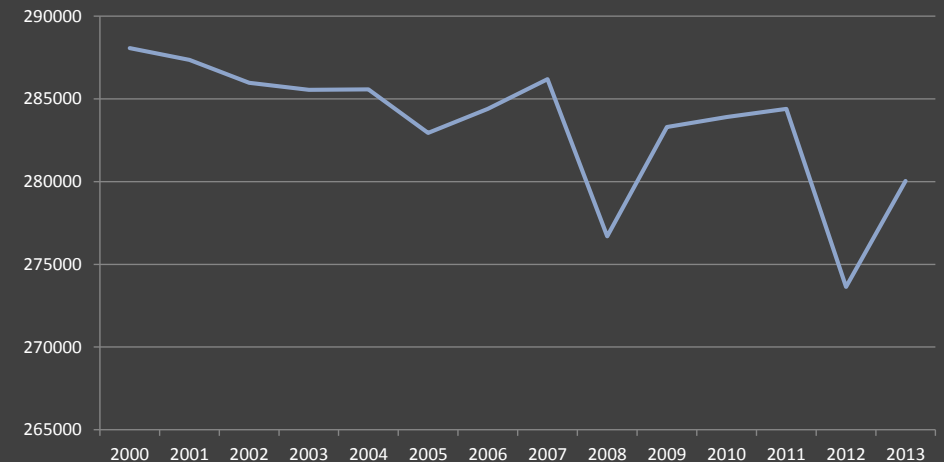
CHATSWOOD, SYDNEY CBD AND NORTH SYDNEY (2000-2013)



Source: PCA Office Market Report, Urbis

Chatswood Office Stock

(2000-2013)



Source: PCA Office Market Report, Urbis

- The global economic downturn starting in 2008 has negatively impacted the Chatswood, Sydney and North Sydney CBD office markets
- Despite the declining office stock in Chatswood, vacancy rates remain high, ~10%
- Addition of office stock in Chatswood in recent times limited to the refurbishment of 465 Victoria Avenue which pushed office vacancy rates up
- The addition of 465 Victoria Avenue, Chatswood into the market, after full refurbishment, pushed vacancy up across the Chatswood office market

Office conclusion

- The market is unlikely to be able to support a significant amount of commercial office space in the Mandarin Centre location
- The Sydney office market is soft and likely to remain so over the medium term
 - Vacancy rates are quite high in suburban office precincts averaging above 10%
 - Vacancy rates in the Sydney CBD office market are also high, averaging 9%
 - Modest level of economic growth likely to continue for some time
- The high vacancy rates and pipeline of an extensive provision of commercial office space within the Sydney CBD is pushing incentives up and exerting downward pressure on rents
 - The Barangaroo South development will add over 300,000 sq.m NLA of commercial office space to come on line starting in 2016
- Lower rents and proximity to customer markets are the key location drivers for office tenants
- The high incentives and relatively low office rents within the Sydney CBD is attracting a number of organisations to relocate back into the city from the suburbs
 - A number of office users in St Leonards, Macquarie Park, Chatswood and Parramatta have recently relocated/or plan to relocate back into the city
- The addition of 465 Victoria Avenue, Chatswood into the market, after full refurbishment, has pushed vacancy up across the Chatswood office market
- The market is responding by the lack of a pipeline of any significant commercial office developments in Chatswood and lack of office sales transactions

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All surveys, forecasts, projections and recommendations contained in or made in relation to or associated with this report are made in good faith and on the basis of information supplied to Urbis at the date of this report. Achievement of the projections and budgets set out in this report will depend, among other things, on the actions of others over which Urbis has no control.

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