



# AUSTGROWTH PROPERTY SYNDICATE NO. 24

ARSN 114 228 590

JUNE 2011

## INVESTORS' REPORT

October 2011

### ECONOMIC ENVIRONMENT

The term "multi-speed" best reflects the current state of the global economic recovery and domestic property markets, with strong and weak indicators evident in both arenas.

The outlook for the global economy has recently deteriorated as downside risks have increased. Worsening US economic data and ongoing European sovereign debt concerns have resulted in declining investor confidence and volatile financial markets. Investors now fear the US economic recovery may be unraveling, prompting concerns of a "double dip" economic recession.

The "multi-speed" economic recovery has become a dominant theme in the current challenging global environment, with gross disparities between some regions and countries. The Asia Pacific region continues to lead the global economy, while the US, Europe and Japan lag behind. There are now real concerns about how this slow down will impact the Asia Pacific region, in particular commodity prices and the Chinese manufacturing sector.

The Australian economy continues to perform soundly, however evidence of the "multi-speed" economy persists as conditions in sectors including retailing, tourism and construction remain subdued.

Concerns about the global economic outlook and signs the domestic employment rate may have peaked have dampened consumer confidence and retail sales. As a result of these fears the household sector is paying down debt and increasing savings.

While Australia's economy remains the envy of most advanced economies, the outlook is far less certain given the backdrop of global economic volatility.

APGF is continuing to focus on property fundamentals and proactive asset management across the "multi-speed" domestic property markets.

While quality commercial office properties are performing relatively well, lesser quality commercial and residential properties still face significant challenges. The availability and cost of bank finance remains an issue however credit conditions have improved over the past twelve months.

APGF remains cautiously optimistic about a continued recovery in commercial property rents and capital values over the next few years, although forced sales by banks and the wind up of unlisted property funds may place some pressure on non-A grade property valuations.

A continued focus on maximising each individual property's net operating income to deliver sustainable performance and long term value to investors remains APGF's priority.



Luis Garcia  
Senior Manager  
Funds Management



Bridget Woods  
Investor Relations  
Manager

### INVESTOR REPORTS

APGF has amended its investor reporting cycle to half-yearly reports. Investors now receive reports for the six months ending June and December. In addition, APGF will continue to keep investors informed of important information with updates available online at [www.apgf.com.au](http://www.apgf.com.au), by letter or investor bulletin. APGF's Investor Relations Team can be contacted during business hours on 1300 668 698.

### WEBSITE

APGF has recently upgraded its website [www.apgf.com.au](http://www.apgf.com.au). Visit your fund page under the Unlisted Funds heading for the latest financial information and asset management updates. The new-look website aims to facilitate timely and relevant communication with investors and we welcome your feedback to [info@apgf.com.au](mailto:info@apgf.com.au).

### OFFICE CLOSURE

APGF will close for the Christmas period at 2.00pm on Friday, 23 December 2011 and will re-open on Tuesday, 3 January 2012. We wish investors a safe and happy holiday season.

# PROPERTY MARKET UPDATE

## MELBOURNE

Melbourne remains one of the strongest performing capitals in Australia's property sector.

According to the Property Council of Australia, during the June 2011 quarter, the Melbourne CBD office market boasted the lowest vacancy rate of any Australian capital city, at 6.3%. Strong demand is expected to continue over the next three years on the back of limited supply<sup>1</sup> and, with only one building completed in the past six months, no new stock is scheduled to enter the market until 2013<sup>2</sup>.

The tightening vacancy rate in Melbourne's CBD is having a flow-on effect into other major precincts including the Southbank waterfront and St Kilda, which are experiencing increased demand<sup>3</sup>.

Despite being renowned for its retail market, Melbourne is not immune to the lack of consumer confidence impacting the rest of Australia. There is, however, notable increased interest in new and expansionary accommodation by global and national retailers. Spanish fashion label Zara has leased space along Melbourne's super prime Bourke Street Mall. This has resulted in increased rental prices for super prime CBD space, with net rents ranging from \$5,500 to \$9,000 per square metre<sup>4</sup>.

Overall, there is a 6% vacancy rate in Melbourne's retail market, despite some of the more historic retail areas such as Bridge Road experiencing vacancy rates of up to 10%.

According to industry research, Melbourne has led the country in relation to industrial rental growth in 2011 as developers reconsider new projects in key transport hubs. This increase in demand, coupled with limited additional supply coming into the market, is expected to see the vacancy rate decrease, thereby keeping pressure on rentals for prime assets located close to key transport networks<sup>5,6</sup>.

With limited supply and little development of quality industrial land forecast over the next 12 months, it is expected there will be continued pressure on maintaining or increasing rents, which should see increased interest from investors<sup>7</sup>.

The market update published in this report relates to the property market(s) relative to this Fund. Should you wish to read our complete property market update which covers Sydney, Melbourne, Brisbane, Perth, Cairns, Canberra, Gold Coast, and Hobart, please request a copy at either [info@apgf.com.au](mailto:info@apgf.com.au) or call 1300 668 698.

## ASSET MANAGEMENT

Note: Net building income is for the 12 months to 30 June 2011.

533 Little Lonsdale Street, Melbourne, VIC

Net Building Income: \$759,916

APGF's asset management team continues to work proactively with principal leasing agents Savills and specialist fringe leasing agent Lemon Baxter to market this property and attract quality long term tenants. Leasing remains the priority, with marketing techniques including online advertising, on-site signage and weekly flyers being employed to generate interest.

Following the successful subdivision of level eight into smaller tenancies, level four has been subdivided and Autoskills has commenced a three year lease for 280sqm. Level two tenant AMES has requested a lease extension to December 2011 as it awaits confirmation from the Government regarding future work contracts. APGF's asset management team has successfully negotiated new five year leases and five year options with existing telecommunication operators UE Access and Optus. Secure Car Parking continues to lease car parking spaces on a casual basis which continues to generate additional income for the Fund. Vacancies now remain on levels one, three, four and seven.

Cosmetic works are being undertaken to improve the appearance of the building. A new directory board has been installed together with new energy efficient lighting in the foyer. Paint works, tiling repairs and polishing of the external brass fittings will enhance the building's external presentation.

<sup>1</sup> Colliers International: Research and Forecast Report: Melbourne CBD Office: First Half 2011

<sup>2</sup> Colliers International: Research and Forecast Report: Melbourne CBD Office: First Half 2011

<sup>3</sup> Colliers International: Research and Forecast Report: St Kilda Road and Southbank Office: First Half 2011

<sup>4</sup> Herron Todd White: A month in review, July 2011

<sup>5</sup> Colliers International: Research and Forecast Report: Melbourne Industrial: First Half 2011

<sup>6</sup> Herron Todd White: A month in review, July 2011

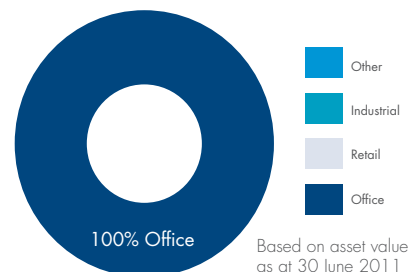
<sup>7</sup> Herron Todd White: A month in review, July 2011

## NET TANGIBLE ASSETS PER UNIT (NTA)

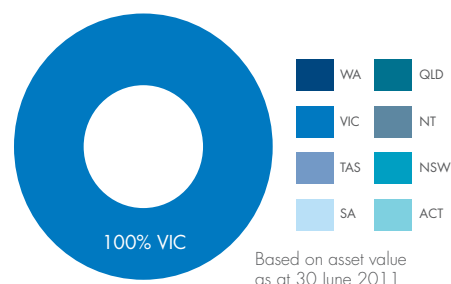
NTA as at 30 June 2011	\$0.73
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The NTA does not represent the return an investor will receive on final settlement as it does not consider future performance, distributions, disposal costs or achieved sales price. The NTA should be used as a guide only and is calculated using the latest valuation.

## DIVERSIFICATION BY SECTOR



## DIVERSIFICATION BY LOCATION



## REGULATORY GUIDE 46 DISCLOSURE PRINCIPLES

Pursuant to Australian Securities and Investment Commission (ASIC) Regulatory Guide 46 (RG 46): "Unlisted property schemes – improving disclosure for retail investors", these disclosures can help retail investors understand the inherent investment risks and decide whether these investments are suitable for them.

Information relative to the Scheme based on ASIC's eight disclosure principles is for the reporting period ended 30 June 2011.

### DISCLOSURE PRINCIPLE 1: GEARING RATIO

Gearing covenants generally refer to the maximum permissible level of gearing as measured against an asset's value, usually called a loan to value ratio (LVR). Each lender imposes its own maximum LVR. These are important, because if an LVR covenant is breached, then this could lead the lender to take steps under its security to recover the loan.

The table below highlights the covenant and actual gearing ratios.

LENDER	BANK GEARING COVENANT	ACTUAL GEARING RATIO			
		Book Value	Per Bank Accepted Valuations	RG 46 Gearing Ratio	RG 46 At Fair Value
CBA	65%	57.29%	57.29%	63.15%	59.53%

## DISCLOSURE PRINCIPLE 2: INTEREST COVER

Information on a scheme's interest cover indicates the Scheme's ability to meet interest payments from earnings. The lower the interest cover, the higher the risk that the Scheme will not be able to meet its interest payments.

The Responsible Entity monitors the Scheme's interest cover ratio on a regular basis to ensure it complies with bank loan covenants and to indicate the Scheme's overall financial performance.

The Scheme's interest cover ratios for the 12 months to 30 June 2011 are outlined below. The Scheme's actual interest cover ratio is measured on a 12-month rolling basis and may be calculated differently to the RG 46 definition.

LENDER	BANK INTEREST COVER RATIO COVENANT	ACTUAL INTEREST COVER RATIO	RG 46 INTEREST COVER RATIO
CBA	1.5	0.52	0.52

Banking covenants which were in breach as at 30 June 2011 were rectified under the new facility with Challenger Managed Investments Limited (Challenger).

## DISCLOSURE PRINCIPLE 3: SCHEME BORROWING

As at 30 June 2011, the Scheme sourced borrowings from the Commonwealth Bank of Australia (CBA) in the amount of \$10,800,000. The facility agreement expired in July 2011 and APGFM successfully negotiated a new loan facility with Challenger for \$12,600,000.

The facility is for two years and expires on 18 July 2013. The facility amount has increased by \$1,800,000 on the previous loan to enable the Scheme to cover capital expenditure costs, lease incentives, reserve funds for interest capitalisation and repayment of loans to the Responsible Entity.

The Scheme must have an interest cover ratio of 1.2 times for the fourth quarter of the loan term and maintain this cover for the remaining term. Additional provisions under the facility include a net lease ratio (equivalent to occupancy rate) for the first 12 months be equal to or greater than 75% and after 15 months must be equal to or greater than 90%.

As part of the agreement, Challenger stipulated that distributions remain suspended. Although it is unlikely the Scheme will distribute any realised income over the next two years, the new loan facility enables critical capital expenditure to be undertaken which should maximise leasing opportunities and the property's ultimate sale price.

## DISCLOSURE PRINCIPLE 4: PORTFOLIO DIVERSIFICATION

PROPERTY	ASSET TYPE	VACANCY BY SQUARE METRE	VACANCY RATE
533 Little Lonsdale Street, Melbourne, VIC	Office	2,254	33.53%

Tenants that constitute 5% or more of the Scheme's net income are as follows:

PROPERTY	TENANT	PERCENTAGE OF SCHEME'S NET INCOME
533 Little Lonsdale Street, Melbourne, VIC	Barristers' Chambers Limited	20.40%
	RCNT Administrative Services Pty Ltd	14.76%
	Hargreaves Pty Ltd	11.94%
	Kelly Hazell Lawyers	13.59%
	AMES	12.34%
	Syncordia Pty Ltd	8.85%
	Elias Giannakopoulos	11.79%

The occupancy rate of the Scheme's property portfolio is 66.47%

LEASE EXPIRY	VACANT	WITHIN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 3 YEARS	BETWEEN 3 AND 4 YEARS	MORE THAN 4 YEARS
Net Lettable Area	33.53%	12.74%	0.00%	8.42%	8.36%	36.95%
WALE (by income)	3.69 years					

## DISCLOSURE PRINCIPLE 5: VALUATION POLICY

Each property is valued at intervals of no more than three years, unless requested earlier or more frequently by a lender.

Where valuations are performed by independent registered valuers, they are required to be appropriately qualified to undertake the valuation, based on the type and locality of the property being valued. The valuation reports are prepared by valuers in compliance with all relevant industry standards and codes.

Investment property is stated at cost less accumulated depreciation on the building in the financial statements. The fair value of investment properties is disclosed separately in the notes to the financial statements.

The value of investment properties is measured on a 'fair value basis', being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

Changes in fair value of investment property are not reflected in the profit or loss.

PROPERTY	VALUATION	CAPITALISATION RATE
533 Little Lonsdale Street, Melbourne, VIC	\$18,850,000 (I)*	8.50%

\* I = Independent Valuation D = Directors' Valuation

## DISCLOSURE PRINCIPLE 6: RELATED PARTY TRANSACTIONS

As at 30 June 2011, the Scheme does not lend, invest in or provide any other form of financial accommodation to APGFM or its associates.

As at 30 June 2011, the Scheme owed APGFM \$485,316 in deferred management fees. From 1 July 2011 the monies owed to APGFM were converted into a loan subject to a commercial interest rate of Bank Bill Swap Bid Rate (BBSY) plus 2%.

Except for the management fees paid/payable to APGFM as Responsible Entity of the Scheme as disclosed in the Product Disclosure Statement, or as otherwise disclosed, there are no other related party transactions for the period ended 30 June 2011.

APGFM maintains a Register of Related Party Transactions and a Potential and Actual Conflicts of Interests Register which records and details any of the Trust's dealings with related parties and potential and actual conflicts of interests. These are constantly monitored by APGFM and its independent Compliance Committee to ensure that any related party transactions are on commercial arm's length terms and any potential and actual conflicts of interests are dealt with and disclosed to ensure that investors are not disadvantaged.

## DISCLOSURE PRINCIPLE 7: DISTRIBUTION PRACTICES

As at 30 June 2011, distributions are suspended. As outlined in Disclosure Principle 3, as part of the agreement with Challenger distributions will remain suspended.

## DISCLOSURE PRINCIPLE 8: WITHDRAWAL RIGHTS

The Scheme is a fixed-term scheme with no withdrawal rights prior to the termination of the Scheme. The Scheme's maturity date is 6 September 2013. The maturity date indicates the latest date by which the manager must have completed the Scheme's wind up process.

### DISCLAIMER

This information is provided without taking into consideration your objectives, financial situation or needs and is not intended as financial product advice or a recommendation. You should obtain independent financial advice before making any investment decision. Past performance is not indicative of future performance.

APGF Management Limited (APGFM) ACN 090 257 480, AFSL No. 229287 holds an Australian Financial Services License authorising it to only provide general financial product advice limited to its own funds. For further information, please refer to the APGFM Financial Services Guide at [www.apgf.com.au](http://www.apgf.com.au).

We welcome your feedback on this June 2011 Investors' Report. You can contact us at [info@apgf.com.au](mailto:info@apgf.com.au).

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