

# DOMAINE DIVERSIFIED PROPERTY FUND

ARSN 108 289 827

DECEMBER 2010

## QUARTERLY INVESTORS' REPORT

March 2011



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Manager

WHILE THE  
AVAILABILITY AND  
COST OF BANK  
FINANCE REMAINS  
AN ISSUE, MOST  
PROPERTY MARKETS  
ARE IN A HEALTHY  
POSITION AS  
STOCK SUPPLY  
AND DEMAND ARE  
IN BALANCE.

## ECONOMIC UPDATE

The global economy grew at an above-trend pace in 2010 and this growth is expected to continue over the next two years. Importantly, there are signs of improvement in the United States and the Asia Pacific region continues to lead the world in economic growth and performance.

Despite this positive outlook, the potential constraints to global economic growth include lingering sovereign debt problems in Europe, the uncertainty created by significant natural disasters globally, and recent political unrest in the Middle East and North Africa, which may have implications for the oil price.

The Australian economy continues to perform soundly and is expected to maintain this momentum over the next two years. Australia's economy remains the envy of most advanced economies, with the country's strong economic fundamentals including economic growth of approximately 3% per annum, underlying inflation of 2.25% per annum and unemployment of 5%.

The medium-term outlook continues to reflect the expected strong mining investment and high commodity prices. However, Australia is presently experiencing a "multi-speed" economy with conditions in sectors such as retailing, tourism and construction remaining subdued as a result of interest rate rises, increased savings rates and recent natural disasters.

Against this economic background, the prospects for Australian property are more promising than they have been in recent years. While the availability and cost of bank finance remains an issue, most property markets are in a healthy position as stock supply and demand are in balance. It appears we are at, or close to, the lowest point in the commercial property valuation cycle.

APGF remains cautiously optimistic about a recovery in rents and capital values over the next 12 to 24 months, although forced sales by banks and the wind-up of unlisted property funds may place some pressure on non-prime property valuations.

This is not an asset of the Fund

INVESTORS WILL NOW RECEIVE REPORTS FOR THE SIX MONTHS ENDING JUNE AND DECEMBER, MAILED IN SEPTEMBER AND MARCH RESPECTIVELY.



19-27 Devlin Street, Ryde

## INVESTOR REPORTS

As referenced in the September 2010 Quarterly Investors' Report, APGF has amended its investor reporting cycle to half-yearly reports. Investors will now receive reports for the six months ending June and December, mailed in September and March respectively. Fund summaries, including Net Tangible Assets per unit, will be updated on a quarterly basis and will be available online at [www.apgf.com.au](http://www.apgf.com.au) in addition to being published in the half-yearly reports. APGF will continue to keep investors informed on a timely basis of any important information that occurs between the half-yearly reports by letter, investor bulletin and the APGF website. APGF's Investor Relations Team can be contacted during business hours on **1300 668 698** or by email at [info@apgf.com.au](mailto:info@apgf.com.au).

## REGISTER REQUESTS

In December 2010 changes were made to the Corporations Act regarding third party register requests. When requesting a copy of a register of members, a person must provide their name, address and satisfy the proper purpose test for seeking a copy of the register. Improper purpose includes the solicitation of a donation, solicitation by a broker, gathering information about personal wealth and making an unsolicited offer to purchase financial products off-market. Register requests must be submitted in writing to the relevant fund registrar and investors should note a fee will be charged. For more information contact APGF's Investor Relations Team on **1300 668 698** or by email at [info@apgf.com.au](mailto:info@apgf.com.au).



99-103 William Angliss Drive, Laverton North

# PROPERTY MARKET UPDATE

## BRISBANE

Despite the challenging start to the New Year because of the January flood, the Brisbane CBD office rental market is forecast to improve in 2011, with the Property Council of Australia's (PCA) latest report indicating increased business activity and a 1.8% decrease in vacancy rates in the six months to January 2011, to 9.4%. Latest forecasts expect the vacancy rate to continue to fall to around 9.0% in the first half of 2011.

Total net absorption of office space in the Brisbane CBD in the six months to January 2011 was 31,795 square metres, with negative net supply during the same period of 5,596 square metres. In comparison, the Brisbane fringe market received 30,716 square metres of net supply in the six months to January, with a positive net absorption of 52,800 square metres during the same period. The PCA reports a further 112,656 square metres of new supply projected for 2011 and 2012.

During the December 2010 quarter, premium gross face rents for Brisbane CBD ranged between \$750 and \$800 per square metre; \$550 and \$685 per square metre for A-Grade office space; and \$450 and \$550 per square metre for B-Grade space. Premium office space achieved yields ranging between 7% and 7.5%, an increase on the third quarter 2010.

Significant recent transactions included the sale of 56,369 square metres at Brisbane Square, 266 George Street for \$300 million and 1,989 square metres at 55 Elizabeth Street for \$24 million. Major leasing activity saw 5,600 square metres of office space at 12 Creek Street leased to the BHP Mitsubishi Alliance.

Net rental for retail properties in the Queen Street Mall ranged between \$2,700 per square metre and \$7,000 per square metre and attracted yields from 5.5% to 7.0%. Net retail for other CBD properties ranged

between \$750 per square metre and \$1,700 per square metre with yields from 6.5% to 8.25%. In Brisbane's bulky goods segment, tenant gross rental for properties less than 1,000 square metres ranged from \$150 per square metre to \$240 per square metre.

Prime industrial rents have slightly improved since the September 2010 quarter. During the December 2010 quarter, prime net rents for industrial property in both Northside and Southside suburbs ranged between \$100 and \$130 per square metre. Tradecoast prime net rental was slightly higher, ranging between \$110 and \$140 per square metre. Prime industrial properties are achieving market yields between 8% and 8.75%.

## SYDNEY

During the six months to January 2011, Sydney recorded its strongest tenant demand for office space in the past three years, according to the Property Council of Australia. The vacancy rate declined during the period from 8.5% to 8.2%. Net absorption for the period was 62,417 square metres. During the period there was also an addition of 66,434 square metres, offset by 15,501 square metres of space which was withdrawn. There will be an additional 186,555 square metres of new office stock entering the market in 2011, with approximately 58% already pre-committed.

The anticipated improvement in the financial services sector is expected to continue driving demand for prime office space in the Sydney CBD. However, there is plenty of evidence that in the short-term, companies remain reluctant about committing to premium rental levels due to uncertainty about the economy. An improvement in investor demand is anticipated as cashed-up property trusts continue to snap up assets and overseas investors seek

opportunities. Any upswing in transaction activity in 2011 is not expected to lead to yield compression. Owners can expect to see some improvement in total returns in 2011, with the improvement in net effective rental rates driving capital value and income growth.

Sydney's retail property market had a relatively subdued 2010. The recently redeveloped Pitt Street Mall, together with stage one of the new Westfield Sydney in the CBD, rejuvenated the new super prime retail space located within in the area.

During the December 2010 quarter, super prime net rents for the Sydney CBD retail property market ranged between \$5,000 per square metre and \$13,600 per square metre in the Pitt Street Mall, and between \$750 per square metre and \$4,000 per square metre for other prime CBD retail property. Pitt Street Mall achieved yields ranging between 5.5% and 6.5% and other CBD retail achieved yields between 5.5% and 8%.

Sydney's industrial market appears to be entering a recovery phase with increased sales volumes and growth in rents along with higher levels of development activity.

Throughout 2010, industrial property yields firmed, rents stabilised and incentives started to fall. There are expectations that rents may increase around 3% in 2011. Supply is forecast to more than double across the metropolitan market, with more than 900,000 square metres of new space expected to be completed in the current year, which is approximately 25% higher than the five-year average.

Many developments which were put on hold during the global financial crisis have now commenced in the metropolitan area. The majority of new development proposals have centred on the M7/M4 and M7/M5 intersections due to the demands of occupiers wishing to reduce transport costs.

With credit availability remaining an issue, speculative construction remains subdued. A-Grade warehouses are experiencing firming yields to around 8.73%, with continued contraction expected over the next two years.

The retail investment market is also showing signs of improvement, with local conditions in better shape than some other markets. There has been a resurgence in international investors along with a number of private buyers and syndicators.

## MELBOURNE

Melbourne's office market vacancy rate decreased in the six months to January 2011, according to the Property Council of Australia's latest report.

The CBD vacancy rate decreased from 6.5% to 6.3%, despite additions of 47,605 square metres. An additional 40,169 square metres of stock is due to enter the market in 2011, followed by another 100,375 square metres in 2012.

Docklands has accounted for much of Melbourne's positive net absorption, while Southbank recorded a decrease in vacancy.

Victoria's economy remains in relatively good shape, with growth in industrial demand, retail spending, employment and population experienced in the December quarter. Recent commercial property sales have seen 50% of the 33-storey, 570 Bourke Street development sold for \$76.5 million in September 2010 on an initial yield of 8.86%, with a capital value of \$2,177 per square metre. An eight-level building at 15-17 Queen Street sold for \$9 million fully-leased in December 2010, reflecting an initial yield of 6.73%.

Outside Melbourne's CBD, a 4,038 square metre office building at 199 Toorak Road sold for \$20 million on a yield of 5.61%, with a capital value of \$4,956 per square metre. There is an expectation that gross

effective rents will experience a modest increase in 2011. Increased buying activity and tightening vacancy rates could see yields compress in 2011-2012.

Investors have returned to the Victorian industrial property market with an increase in transaction volumes in 2010. Prime stock has achieved firm yields. Owner-occupiers have dominated the smaller end of the market, highlighting the opportunities to take advantage of value, rather than rent. Sales in the \$2 million to \$10 million bracket made up almost 50% of sales activity for a total value in excess of \$350 million in the past 12 months, which is higher than the 10-year average of \$299 million. Meanwhile, a total of approximately \$290 million was transacted in the \$20 million and above bracket, which is also higher than the 10-year average of \$176 million. Overall, there appears to be plenty of industrial space available for lease throughout Melbourne's industrial regions, which will limit capital value growth and rental growth in the short-term. While prices appear to be stabilising, it is unlikely there will be any major upward price movement in the short to medium-term.

In the December 2010 quarter, capital values in Melbourne's retail property market were again marked as the strongest performing market. Despite challenging economic conditions, property in Melbourne's prime retail strips remained in high demand, resulting in tight yields.

Business sentiment indicates an expectation for Melbourne's retail vacancy rates to rise from approximately 3.0% in the December 2010 quarter to approximately 3.5% in the third quarter 2011, with the slightly higher vacancy rate indicative of the relatively slow return of the sector to positive market conditions.

*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, Gold Coast, Canberra & 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 31 December 2010.*

### 11 Murray Dwyer Circuit, Mayfield West, NSW

Net Building Income: \$487,380

The damage to the roof identified by engineers last quarter has been repaired at a cost of approximately \$20,000. A partial roof replacement was required together with the installation of new box guttering and these works have been completed. The property is currently being prepared for sale and remains leased to CSC Australia with a lease expiry of 2014.

### Centrelink Building, 19-27 Devlin Street, Ryde, NSW

Net Building Income: \$337,148

APGF's asset management team continues its negotiations with Centrelink regarding an extension of its lease in conjunction with carpet replacement. A further proposal has been submitted for consideration with a new term of seven years, and we await the tenant's response.

The major upgrade to the property's air conditioning units has been completed and as reported in the September 2010 Quarterly Investors' Report, the upgrade has been funded from working capital.

### 99-103 William Angliss Drive, Laverton North, VIC

Net Building Income: \$1,464,496

This property continues to perform in line with expectations and there are no material issues to report. The property is fully leased to Scotts Refrigerated Freightways until December 2020.



19-27 Devlin Street, Ryde

### 518 Brunswick Street, Brisbane, QLD

Net Building Income: \$1,240,341

APGF's asset management team continues to work closely with Bechtel regarding its lease requirements however it is unlikely the tenant will exercise its current three-year option due to the rental structure. Bechtel has advised it is unable to commit to a longer lease term due to the project nature of its business, however a new three year lease renewal is currently under consideration. Following the finalisation of leasing arrangements with Bechtel, this property will be prepared and marketed for sale.

### Belmont Central, Belmont, NSW (Ownership Interest 50%)

Net Building Income: \$2,120,659

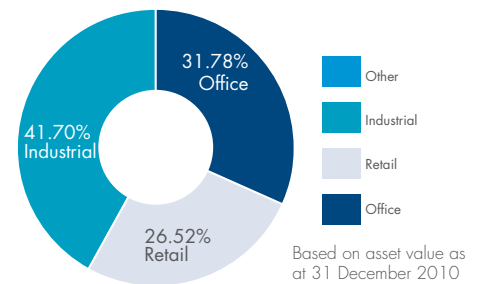
Leasing is the priority for this property and a specialised boutique retail leasing agent has been appointed to assist the managing agent to fill the remaining six vacant tenancies. A dedicated centre promotion campaign, including additional signage along the Pacific Highway, is currently being developed as the opening of nearby Charlestown Square has had a negative impact on traffic and sales in the Centre. A national homewares retailer is currently casually leasing 238 square metres and this may be converted to a permanent

lease if its performance is successful, and a massage operator has executed a letter of offer for a five year base term. The stronger performing retailers in the centre are currently travel, communications and discount variety operators.

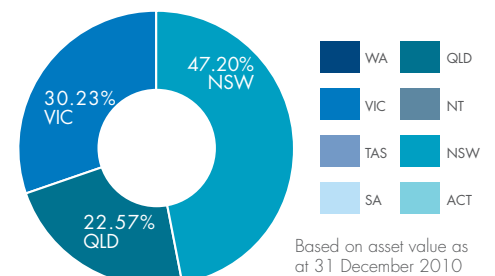
### FUND UPDATE

At the Review Meeting held on 10 December 2010 investors voted in favour of the termination of the Fund. An orderly sale of assets is due to commence in April 2011 with the Mayfield West property the first to be marketed, followed by the Brunswick Street property once the outcome of leasing negotiations with Bechtel is completed. It is anticipated the sale process will take between 12 to 18 months and the proceeds from the sales will initially be used to retire the debt facility with Suncorp. It remains the Manager's intention to preserve as much value as possible for investors. However, the current local market conditions remain challenging and the Manager anticipates sales at valuations may not be achieved for every property. Investors will be kept informed throughout the sales process. The Manager is continuing to negotiate with the Fund's bank in relation to the asset disposal program and the maturity date of the loan facility.

### DIVERSIFICATION BY SECTOR



### DIVERSIFICATION BY LOCATION



### NET TANGIBLE ASSETS PER UNIT (NTA)

NTA as at 31 December 2010 | \$0.25

## 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 Fund based on ASIC's eight disclosure principles is for the reporting period ended 31 December 2010.

### DISCLOSURE PRINCIPLE 1: GEARING RATIO

LENDER	BANK GEARING COVENANT	ACTUAL GEARING RATIO	
		Book Value 31 December 2010	Per Bank Accepted Valuations
Suncorp	65%	75.9%	76.4%

The Fund's actual loan to value ratio (LVR) may be calculated differently to the RG 46 definition.

On 23 February 2011, Suncorp issued a further LVR Default Notice to the Fund as the gearing ratio continues to be in breach of the LVR covenant in clause 18.2 of the facility agreement.

Suncorp has reserved its rights to take certain actions as outlined in the facility agreement. The Manager is continuing to negotiate with the Fund's bank in relation to the asset disposal program and the maturity date of the loan facility.

### DISCLOSURE PRINCIPLE 2: INTEREST COVER

The Fund's interest cover ratio for the 12 months to 31 December 2010 is outlined below. The Fund'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
Suncorp	1.00	1.77

### DISCLOSURE PRINCIPLE 3: SCHEME BORROWING

The Fund sources borrowings from Suncorp in the amount of \$29,641,000. The facility agreement expires in June 2011. As the properties are being marketed for sale and the Fund is to be wound up, APGF is in discussions with Suncorp to provide short-term extensions until the properties are sold.

### DISCLOSURE PRINCIPLE 4: PORTFOLIO DIVERSIFICATION

PROPERTY	ASSET TYPE	VACANCY BY SQUARE METRE	VACANCY RATE
11 Murray Dwyer Circuit, Mayfield West, NSW	Office	0	0.0%
Centrelink Building, 19-27 Devlin Street, Ryde, NSW	Office	0	0.0%
99-103 William Angliss Drive, Laverton North, VIC	Industrial	0	0.0%
518 Brunswick Street, Brisbane, QLD	Office	0	0.0%
Arthur Street Car Park, Brunswick, QLD (part of Brunswick Street Brisbane)	N/A	N/A	N/A
Belmont Central, Belmont, NSW (50%)	Retail	412.6	6.2%



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

PROPERTY	TENANT	PERCENTAGE OF SCHEME'S NET INCOME
518 Brunswick Street, Brisbane, QLD	Bechtel Australia	37.15%
99-103 William Angliss Drive, Laverton North, VIC	Scotts Refrigeration Freightways Pty Ltd	37.87%
Centrelink Building, 19-27 Devlin Street, Ryde, NSW	Centelink	12.38%

The occupancy rate of the Scheme's property portfolio is 98.74%.

WEIGHTED AVERAGE LEASE EXPIRY BY NET LETTABLE AREA	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	1.26%	0.00%	18.53%	0.37%	9.79%	70.05%
WALE	6.17 years					

## DISCLOSURE PRINCIPLE 5: VALUATION POLICY

The properties are valued at least once per annum unless required more frequently by the Fund's constituent documents, financier, or if Directors believe there is a material change in market conditions.

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.

At all times Directors must ensure that properties are carried at fair market value. 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.

Subject to the accounting standards adopted by the Trust, any revaluation decrement/impairment will be either recorded in the Income Statement as an income/expense, or disclosed in the notes to the financial statements.

PROPERTY	VALUATION	CAPITALISATION RATE
11 Murray Dwyer Circuit, Mayfield West, NSW	\$6,100,000 (D)*	9.25%
Centrelink Building, 19-27 Devlin Street, Ryde, NSW	\$4,620,000 (D)*	10.25%
99-103 William Angliss Drive, Laverton North, VIC	\$16,075,000 (D)*	9.25%
518 Brunswick Street, Brisbane, QLD	\$12,000,000 (D)*	9.00%
Arthur Street Car Park, Brunswick, QLD (part of Brunswick Street Brisbane).	\$280,000 (D)*	2.10%
Belmont Central, Belmont, NSW (50%)	\$28,200,000 (D)*	8.00%

\*I = Independent Valuation, D = Directors' Valuation

## DISCLOSURE PRINCIPLE 6: RELATED PARTY TRANSACTIONS

As at 31 December 2010, the Fund does not lend, invest in or provide any other form of financial accommodation to Domaine Property Funds Limited (DPFL) or its associates.

Except for the management fees paid/payable to DPFL 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 31 December 2010.

DPFL 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 DPFL 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 31 December 2010, distributions are suspended. The Fund's quarterly distributions were suspended in the June 2008 quarter. With the challenging economic and property market conditions and the pressure on the Fund's gearing continuing, distributions will unfortunately have to remain suspended.

## DISCLOSURE PRINCIPLE 8: WITHDRAWAL RIGHTS

At the Review Meeting held on 10 December 2010 investors voted in favour of the termination of the Fund. The properties are being prepared for sale and the Fund will be wound up once all properties have been sold.

It is anticipated the sale process will take between 12 to 18 months and the proceeds from the sales will initially be used to retire the debt facility with Suncorp.

It remains APGF's intention to preserve as much value as possible for investors.

THE AUSTRALIAN  
ECONOMY  
CONTINUES  
TO PERFORM  
SOUNDLY AND  
IS EXPECTED TO  
MAINTAIN THIS  
MOMENTUM  
OVER THE NEXT  
TWO YEARS.

## 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.

Domaine Property Funds Limited (DPFL) ACN 085 616 824, AFSL 225131 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 DPFL Financial Services Guide at [www.apgf.com.au](http://www.apgf.com.au).

We welcome your feedback on this December 2010 Quarterly Investors' Report. You can contact us at [info@apgf.com.au](mailto:info@apgf.com.au).

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