

# MELBOURNE PROPERTY SYNDICATE

ARSN 101 809 269

# MELBOURNE UNIT TRUST

ARSN 101 809 401

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.

91-105 Woodlands Drive, Braeside



## 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).

91-105 Woodlands Drive, Braeside

# PROPERTY MARKET UPDATE

## 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 2010 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, Canberra, Gold Coast and Hobart, please request a copy by email to [info@apgf.com.au](mailto:info@apgf.com.au) or phone 1300 668 698.*



91-105 Woodlands Drive, Braeside

## ASSET MANAGEMENT

*Note: Net building income is for the 12 months to 31 December 2010.*

### 91-105 Woodlands Drive, Braeside, VIC

Net Building Income: \$903,727

This property continues to perform in line with expectations and there are no material issues to report.

Following Aggreko Generator Rental's enquiry regarding additional office space, APGF's asset management team put forward a proposal outlining a number of alternatives, including the construction of a mezzanine floor. Aggreko has advised it is still in the initial stages of determining space requirements and has elected not to proceed at this time.

APGF's asset management team has commenced negotiations with Flavour Makers regarding an early extension of its six-year option, due to commence in 2013.

## FUND UPDATE

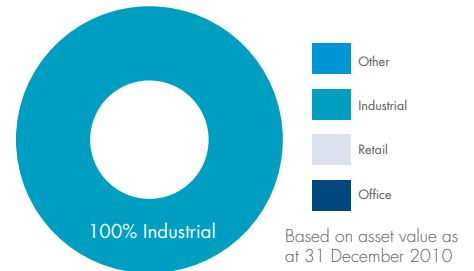
The Melbourne Property Syndicate and Melbourne Unit Trust has a fund maturity date of 20 June 2011 which means the property must be sold, capital returned to investors and the syndicate wound up by this date. An extensive professional marketing campaign to sell the property commenced in March 2011 and investors will be kept informed regarding the progress of the sale.

Colliers International has been appointed as the sales agent and its specialised industrial team developed a marketing campaign for the sale of the property. Expressions of interest are being sought and it is anticipated the campaign will conclude in mid-April.

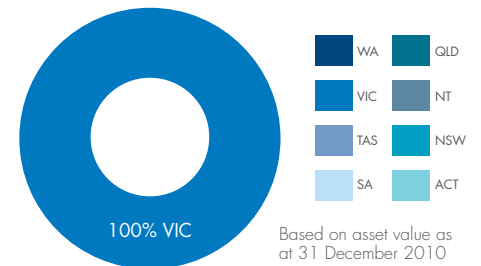
## NET TANGIBLE ASSETS PER UNIT (NTA)

NTA as at 31 December 2010 | \$1.15

## 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 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
St George Bank	60%	56.4%	56.4%

The Fund’s actual loan to value ratio may be calculated differently to the RG 46 definition.

### 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
St George Bank	1.6	2.48

### DISCLOSURE PRINCIPLE 3: SCHEME BORROWING

The Fund sources borrowings from St George Bank in the amount of \$6,587,456. The facility agreement expires in March 2012.

## DISCLOSURE PRINCIPLE 4: PORTFOLIO DIVERSIFICATION

PROPERTY	ASSET TYPE	VACANCY BY SQUARE METRE	VACANCY RATE
91-105 Woodlands Drive, Braeside, VIC	Industrial	0	0.0%

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

PROPERTY	TENANT	PERCENTAGE OF SCHEME'S NET INCOME
91-105 Woodlands Drive, Braeside, VIC	Aggreko Generator Rentals	60.71%
	Flavour Makers	39.29%

The occupancy rate of the Scheme's property portfolio is 100%.

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	0.00%	0.00%	0.00%	0.00%	31.81%	68.19%
WALE	6.57 years					





## DISCLOSURE PRINCIPLE 5: VALUATION POLICY

Each property is valued at intervals of no longer than two 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.

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
91-105 Woodlands Drive, Braeside, VIC	\$11,675,000 (D)*	8.50%

\*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 APGFM or its associates.

The Fund owes APGFM \$36,363 in deferred management fees. The repayment of these fees is likely to take place when the property is sold from sale proceeds.

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 31 December 2010.

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

The Fund's objective is to pay distributions on a quarterly basis. Distributions are generally sourced from realised income. Occasionally, a distribution may include a component sourced from capital (either from borrowings and/or equity), where APGFM considers this is appropriate and prudent. For example, a rent-free period may be offered to attract a new tenant and this may lead to a slight reduction in the realised income of the Fund for a particular period. In that situation, APGFM might decide to supplement a particular distribution with an amount sourced from equity, or from Scheme borrowings. However, APGFM will only do this where APGFM considers it will not have a materially adverse impact on the Fund.

Distributions continue to be paid on a quarterly basis at 9.0 cents per unit per annum.

## DISCLOSURE PRINCIPLE 8: WITHDRAWAL RIGHTS

The Fund is a fixed-term Fund with no withdrawal rights prior to the termination of the Fund. The Fund's maturity date is 20 June 2011. The maturity date indicates the latest date by which the Manager must have completed the Scheme's wind up process.

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.

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 December 2010 Quarterly Investors' Report. You can contact us at [info@apgf.com.au](mailto:info@apgf.com.au).

## AUSTRALIAN PROPERTY GROWTH FUND

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