

# DOMAINE SEQ GROWTH FUND

ARSN 115 639 971

JUNE 2010

## QUARTERLY INVESTORS' REPORT

September 2010



Geoff McMahon  
Managing Director



Michael O'Reilly  
Director,  
Asset Management

## ECONOMIC OUTLOOK

Australia's economy has lost some momentum in recent months and the recovery from the Global Financial Crisis (GFC) is taking longer than expected.

Uncertainty about Australia's economic outlook has prevailed despite booming exports from the mining industry delivering a record trade surplus. Notwithstanding this success, recent business surveys reveal many parts of the economy are struggling and sectors such as retail are actually performing worse than they did during the GFC.

Australians have adopted a new conservatism and have become more frugal in their spending habits, saving more of their income, which is resulting in weaker retail spending. Falling retail sales and a flattening housing market have resulted in declining business confidence and conditions.

Australian business confidence fell broadly in July as the manufacturing, retail and construction sectors weakened, which more than offset the strength provided by the mining sector, according to a monthly survey by National Australia Bank (NAB). A June quarter survey by credit research agency Dun & Bradstreet on business expectations found access to finance is expected to worsen and many companies are still reticent about hiring new staff.

In addition to the current domestic concerns, the economies of the United States of America and Europe are still looking fragile, creating further uncertainty. Concerns about global growth and slower retail sales data were among the reasons the Reserve Bank of Australia decided in September to keep interest rates steady for the fourth consecutive month.

Negative business confidence and expectations do not bode well for the property market in the short-term. Property market sentiment and conditions took a turn for the worst in the June quarter and according to the NAB Australian Commercial Property Survey, the deteriorating market conditions mean recovery timeframes are being extended and return expectations lowered.

The Property Council of Australia has confirmed aggregate office vacancy rates rose to an 11-year high for the six months to July 2010 as a result of the pre-global financial crisis development boom now coming through the market. The vacancy rate has more than doubled in the past two and a half years and now stands at 10 percent, up from 9.3 percent in January 2010. With further supply in the pipeline, vacancy rates could be pushed higher as increased tenant demand fails to keep pace.

There are current estimates that approximately \$13 billion worth of office, retail and tourism properties across the country are now on the market and there is evidence of foreign investors entering the market looking for bargains. Commercial property transactions have greatly reduced over the past two years due to a credit freeze, with many vendors withdrawing their assets, where possible, to avoid selling at the bottom of the cycle. The main impediment to the majority of transactions remains the access to and cost of debt, as lending by the banks remains constrained. These factors have contributed to APGF's view that it is not the optimum time to be selling property, and opportunities to maximise the value of such assets will probably not emerge until late 2011.

APGF BELIEVES THAT  
OPPORTUNITIES  
TO MAXIMISE THE  
VALUE OF ASSETS  
WILL PROBABLY  
NOT EMERGE  
UNTIL LATE 2011.

## FINANCIAL REPORTS

The 2009/10 Financial Report has been prepared and is available to download at our website, [www.apgf.com.au](http://www.apgf.com.au). Should you wish to receive a copy of the 2009/10 Financial Report by mail, please notify Computershare in writing and a printed copy will be mailed to you. If you do request a printed copy, please ensure you provide your unit holder number and address so we can clearly identify you and your investment(s). If you have previously notified Computershare of this request you will automatically be sent a copy of the Financial Report.

## UNIT PRICING POLICY

The unit pricing policy for the Domaine SEQ Growth Fund has been updated and is available at our website, [www.apgf.com.au](http://www.apgf.com.au).

## QUARTERLY NTA UPDATES

From 1 July 2010 the Net Tangible Assets (NTA) per unit for the Domaine SEQ Growth Fund will be calculated on a quarterly basis (instead of monthly) and in addition to being published in the Quarterly Investors' Report, will be available on our website at [www.apgf.com.au](http://www.apgf.com.au). The NTA will be calculated as at 31 March, 30 June, 30 September and 31 December and available online approximately 3-6 weeks thereafter.

## MANAGED INVESTMENT TRUSTS CGT ELECTION

Under the new legislation enacted by the Government on 3 June 2010, eligible Australian Managed Investment Trusts (MITs) were required to make an irrevocable election by 2 September 2010 to apply the capital gains tax (CGT) provisions as the primary code for the taxation of gains and losses on the disposal of certain assets, including real property. Domaine SEQ Growth Fund qualifies as an eligible Australian MIT and has elected to apply the Capital Account treatment to gains on disposal of assets. Please note APGF has published this for information only; investors are not required to act on this information.

## PROPERTY MARKET UPDATE

### BRISBANE

The Brisbane office market experienced a fall in vacancies from 11.3 to 10.9 percent over the six months to July 2010.

With 22,989 square metres of new space coming into the Brisbane CBD market since January, demand for the period totalled 27,516 square metres, which was almost three times the 20-year average.

Many Brisbane companies which took expansion space prior to the GFC were quick to sub-lease this space during the economic downturn. These companies are now reassessing these sub-leases following the turnaround in the labour market in early 2010. This has provided a major boost to the market.

Demand growth appears to be most pronounced in the A-Grade space, while the B-Grade space vacancy rate increased over the period to 15.4 percent.

The result is positive for the market, however the vacancy rate still remains above the national capital city average of 8.9 percent and there is an estimated 38,000 square metres due to enter the market during the second half of the year.

The Brisbane retail sector has remained resilient, with many purchasers keen to secure relatively safe investment assets. The Queen Street Mall has seen vacancy rates ease to around 6 percent, while other retail properties facing the Mall are recording average vacancy rates of 4 percent. While there have been few sales in Brisbane's CBD in the past 12 months, yields currently range between 5.5 and 7.5 percent.

Among the regional shopping centres, yields currently range between 6.5 and 7.5 percent and capital values are between \$6,500 and \$10,000 per square metre.

The Brisbane industrial market is showing signs of stabilisation, however investors remain cautious due to the prevailing uncertainty. Industrial property sales of \$464 million were achieved during the past 12 months, while approximately 340,000 metres of space was reportedly leased in the year to June 2010. Industrial rents ranged from \$100 to \$140 per square metre for prime industrial space.

Prime properties under \$3 million are achieving yields of between 8 and 9 percent and CBD fringe properties are achieving firmer yields due to the underlying land value and opportunities for redevelopment. Sales in the \$3 million to \$10 million range are achieving yields from 8.25 to 9.5 percent.

There is still a noted oversupply of industrial stock on both the north and south sides of Brisbane with some complexes experiencing 50 percent vacancy rates. There are predictions it may take up to two years to absorb the current oversupply of stock.

*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 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 2010. Vacancy rate is at 30 June 2010.*

### Calamvale Shopping Centre

Net Building Income: \$3,846,371

Vacancy Rate: 5%

APGF is still finalising the outstanding developer obligations with the centre's original developer, Property Solutions (PS). As stated in the March 2010 Quarterly Investors' Report, negotiations are continuing with PS and APGF is in favour of accepting the offer from PS, as the alternative to reaching a commercial settlement is to take legal action, which is unlikely to achieve a better outcome.

Two successful leasing negotiations with ladies fashion retailers have been agreed and we await signed leases from both parties. We will provide leasing details in the next Quarterly Investors' Report.

The property was revalued for the 30 June 2010 accounts at \$60,700,000, which represents a decrease of 2.88% on the 31 December 2009 valuation of \$62,500,000.

### Mt Gravatt Village Shopping Centre

Net Building Income: \$2,358,498

Vacancy Rate: 7%

There are currently three retail vacancies and one commercial office suite available to lease. There is no firm commitment on the retail vacancies at this stage, however our managing agents are in discussions with several interested parties including giftware, ladies fashion retailers and a newsagency.

It is unlikely we will be able to recover the arrears from the former newsagency tenant that defaulted on its repayment obligations. Our solicitors have advised not to pursue the matter any further as there is very little chance of any recovery.

The property was revalued for the 30 June 2010 accounts at \$37,000,000, which represents an increase of 1.37% on the 31 December 2009 valuation of \$36,500,000.

### 333 Ann Street, Brisbane

Net Building Income: \$9,572,072

Vacancy Rate: Nil

The property management contract has been awarded to Knight Frank from 1 October 2010. This new contract is expected to generate cost savings, whilst continuing a strong focus on debt management and general expense control.

The original green star consultant will be commissioned to confirm the green star rating. The reports are expected to be completed by December 2010.

The property was revalued for the 30 June 2010 accounts at \$117,500,000, which represents an increase of 2.17% on the 31 December 2009 valuation of \$115,000,000.

### Yatala

Net Building Income: \$1,345,464

Vacancy Rate: Nil

This property has been earmarked for sale, with the marketing campaign commencing on 20 August 2010. Nine parties have expressed interest in the property thus far, with tenders closing in early October 2010. The manager determined it was an appropriate time to sell this property with its attractive long-term lease to Scott's Refrigerated Freightways, expiring October 2017. The proceeds from the sale will be used to further reduce the Fund's debt facility with NAB thus improving the Fund's Loan to Value Ratio (LVR).

The property was revalued for the 30 June 2010 accounts at \$14,600,000. This remains unchanged from the 31 December 2009 valuation.

### CB1 & CB2

Net Building Income: \$7,830,066

Vacancy Rate: Nil

One tenant has been set up on a payment plan in order to repay arrears totalling \$98,000. We do not envisage any problems with the recovery of these arrears.

The property was revalued for the 30 June 2010 accounts at \$94,500,000, which represents an increase of 3.28% on the 31 December 2009 valuation of \$91,500,000.

## BANK DEBT

NAB recently undertook a review of the debt facility and has agreed to continue funding subject to the following terms and conditions:

- Loan to Value Ratio (LVR) covenant not to exceed 68% for the period up to, but not including, 31 December 2011. On and from 31 December 2011, the LVR is not to exceed 65%.
- Principal repayment of \$2.0 million for June 2010 quarter, and then \$1.5 million per quarter for balance of term.
- Next independent valuations to be undertaken by May 2011.
- Interest Cover Ratio (ICR) covenant to be no less than 1.5 times for each 12-month period after 30 June 2010.
- Minimum of 50% of the debt to be hedged at all times.

The current loan balance is \$215,375,588 and is due to expire in September 2012.

## EGM

On 2 June 2010, investors voted in favour of amendments to the Fund's Constitution which included establishing an Investor's Consultation Committee (ICC), limiting Responsible Entity (RE) powers, amending RE performance fee and changing the RE to APGF Management Limited. The ICC has met twice since its formation on 2 June 2010.

## FUND SUMMARY

As at 30 June 2010	
Fund Size	\$330,605,891
Net Tangible Assets Per Unit	\$0.55
Loan to Value Ratio (LVR)	66.4%
Interest Cover Ratio (ICR)	1.6 times*
Weighted Average Lease Expiry	5.43 years
Independent property valuation for 30 June 2010 accounts	\$324,300,000

\* For the 12 months to 30 June 2010.

### DISCLAIMER

The 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.

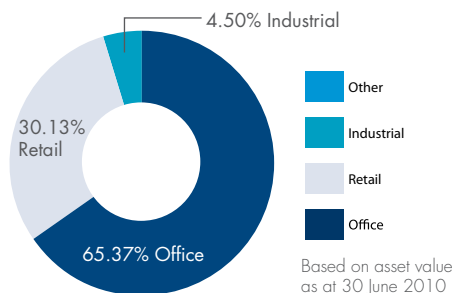
Domaine Property Funds Limited (DPFL) ACN 085 616 824, AFSL 225131 holds an Australian Financial Services License authorising it to only provide general financial product advice limited to its own funds. For further information, please refer to the DPFL Financial Services Guide at [www.apgf.com.au](http://www.apgf.com.au).

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

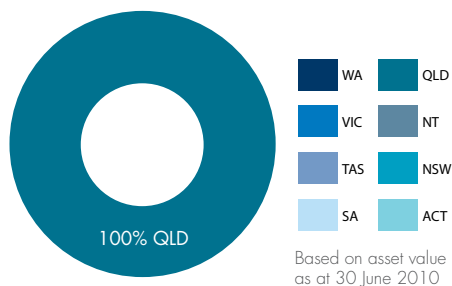
## DISTRIBUTIONS & LIQUIDITY

Following the lenders review of the debt facility, distributions will remain suspended until such time that the new terms and conditions are being met under the facility agreement. As previously reported, there is unlikely to be a liquidity event until the Fund's scheduled review date in September 2012.

## DIVERSIFICATION BY SECTOR



## DIVERSIFICATION BY LOCATION



THE INVESTOR'S  
CONSULTATION  
COMMITTEE HAS  
MET TWICE SINCE  
ITS FORMATION  
ON 2 JUNE 2010.



333 Ann Street, Brisbane