

# PENRITH PROPERTY SYNDICATE

JUNE 2010

## QUARTERLY INVESTORS' REPORT

September 2010



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APGF BELIEVES 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.

### 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.

## 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 APGF 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).

## QUARTERLY NTA UPDATES

From 1 July 2010 the Net Tangible Assets (NTA) per unit for the Penrith Property Syndicate 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. Please note when calculating the NTA the latest valuation is assumed and the NTA should therefore be used as a guide only.



589 High Street, Penrith

## ANNUAL INVESTOR PRESENTATIONS

Australian Property Growth Fund was pleased to conduct annual investor presentations in Sydney, Melbourne, Perth, Brisbane, Canberra, Adelaide and Hobart in late July and early August.

The presentations were attended by investor groups of up to 70 people per city and provided an update on their investment, including APGF's strategy, property and economic overviews and the implications for their investments going forward.

The presentations provided APGF's management team with a valuable opportunity to meet face-to-face with investors and discuss individual queries in relation to their investment(s).

## PROPERTY MARKET UPDATE

### SYDNEY

The vacancy rate for Sydney office buildings rose from 8.1 to 8.5 percent over the past six months, according to the Property Council of Australia's research. The vacancy rate increase was a result of 72,363 square metres of supply additions, including the refurbishment of Westfield Tower at 100 Market Street and Mid City Centre at 420 George Street. Net absorption for the period was 39,376 square metres.

North Sydney experienced a vacancy rise from 11.7 to 11.8 percent, however the addition of 28,420 square metres in new office stock was nearly matched by net demand of 24,381 square metres.

Vacancy rates in Parramatta reached a four year high, increasing from 9.8 to 10.7 percent over the past six months. The Sydney industrial market remains subdued as buyers continue to be cautious

and have adopted conservative views on yields. Prime industrial property yields are currently in the range of 8 to 9 percent, while secondary grade property ranges from 8.5 to 10 percent.

Approximately 690,000 square metres of industrial accommodation was leased in the past 12 months and the market has achieved approximately \$720 million worth of sales.

South Sydney has seen a higher level of activity than other parts of the industrial market, however values and activity have both decreased considerably since late 2008. Yields for South Sydney have softened to a range of 8 to 8.75 percent for prime grade properties. Incentive levels are currently at between 8 and 10 percent of initial lease terms, while net face rents for prime grade stock are between \$120 and \$180 per square metre.

The Western Sydney industrial market has also seen a reduction in values, an increase in supply and softening yields ranging between 8 and 10 percent. Land values have also decreased by up to 30 percent.

South-west Sydney's industrial market has experienced some yield stabilisation with a moderate recovery in capital values as a result of significant infrastructure spending in the region, including the M5 and M7 Motorways.

The Sydney retail sector has displayed its resilience, with the government's stimulus package coupled with relatively strong employment dampening the impacts of the global economic downturn on the market. The completion of the Pitt Street Mall redevelopment scheduled for late 2010 will result in approximately 40,000 square metres of retail stock returning the market, and the vacancy rate for strata-titled retail property throughout the CBD is sitting at approximately 0.6 percent.



Retail investments continue to demonstrate a recovery in Western Sydney, particularly in the under \$30 million market, and the recent sale of the Cecil Hills Shopping Village for \$10.8 million achieved an initial net yield of 8.9 percent.

*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.*

### 589 High Street, Penrith, NSW

Net Building Income: \$619,887

Vacancy Rate: Nil

APGF has successfully negotiated a new lease with Centrelink, however execution of the lease has been delayed while a new Government is formed. The seven year lease, with a three year option period, is due to commence on 13 October 2010.

Over the next two quarters, APGF will be managing and contributing to the cost of building improvements, including

upgrading the energy rating of the building to 4.5 stars, replacing the carpet and painting the building exterior.

The property was revalued for the 30 June 2010 accounts at \$7,000,000. This remains unchanged from the 31 December 2009 valuation.

## MEETING OF INVESTORS

A meeting of investors will be scheduled for the last quarter of 2010 to determine the future of the Syndicate. Further information regarding the position of the Syndicate and details of the meeting will be forwarded to investors in due course.



589 High Street, Penrith



## DISTRIBUTIONS

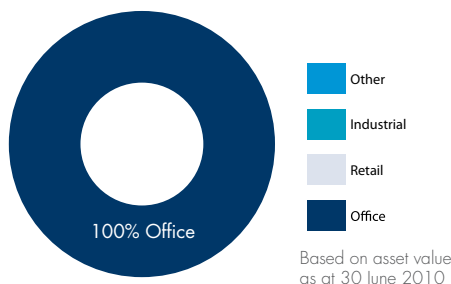
Distributions continue to be paid on a monthly basis at 4.0 cents per unit per annum.

A one-off special distribution was paid to investors on 30 June 2010 as the taxable income of the Fund for the year ended 30 June 2010 was expected to exceed the cash distributions paid. A letter confirming the payment for your records accompanied the distribution statement.

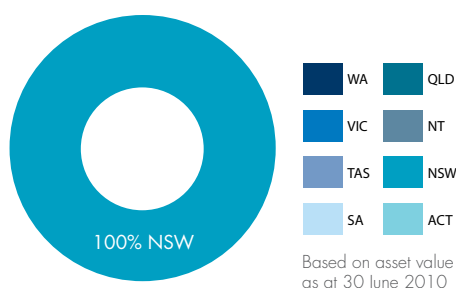
## BANK DEBT

APGF has successfully negotiated an extension of the \$3,725,000 debt facility with the Commonwealth Bank of Australia (CBA) to 30 June 2011. As a demonstration of APGF's commitment to the Fund and its financial capacity, APGF will guarantee the Fund's interest expense servicing capacity until 30 June 2011.

## DIVERSIFICATION BY SECTOR



## DIVERSIFICATION BY LOCATION



AS A DEMONSTRATION OF APGF'S COMMITMENT TO THE FUND AND ITS FINANCIAL CAPACITY, APGF WILL GUARANTEE THE FUND'S INTEREST EXPENSE SERVICING CAPACITY UNTIL 30 JUNE 2011.

## FUND SUMMARY

As at 30 June 2010	
Net Tangible Assets Per Unit	\$0.86
Loan to Value Ratio (LVR)	53.2%
Interest Cover Ratio (ICR)	2.8 times*
Weighted Average Lease Expiry	0.28 years
Property valuation for 30 June 2010 accounts	\$7,000,000
Maturity Date	To be determined at an investor meeting in the last quarter of 2010

\* For the twelve 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.

Austgrowth Property Syndicates Limited ACN 080 456 542, AFSL 226385 holds an Australian Financial Services License authorising it to only provide general financial product advice limited to its own funds.

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).

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