

AUSTGROWTH PROPERTY SYNDICATE NO.21

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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.

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). As always, we appreciate the feedback provided by our investors which enables APGF to continue to provide the level of information and detail investors require.

MERGER PROPOSAL

The details of the proposed merger of up to 11 property syndicates and trusts were detailed in correspondence sent to investors in late September 2010. APGF has put forward a proposal which captures the potential for future growth, provides greater certainty of earnings/distributions and lowers risk through increased diversification. APGF believes this proposal is in the best interests of investors. An Explanatory Memorandum will be sent to investors in the coming months and will provide more detailed information on the proposed merger.

FINANCIAL REPORTS

The 2009/10 Financial Report has been prepared and is available to download at our website, www.apgf.com.au. Should you wish to receive a copy of the 2009/10 Financial Report by mail, please notify Registries Limited 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 Registries Limited of this request you will automatically be sent a copy of the Financial Report.

QUARTERLY NTA UPDATES

From 1 July 2010, the Net Tangible Assets (NTA) per unit for APS 21 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. 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.

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. APS 21 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

CAIRNS

Cairns' near-CBD properties are currently displaying the strongest demand in the industrial market.

Industrial property yields have softened from their previous 2008 lows and are currently in the range between high 7 percent to slightly above 8 percent, compared with the previous levels between high 6 percent to low 7 percent. While there is reasonable demand for quality stand-alone warehouse stock, there is limited supply available. There is also limited leasing demand for strata-titled warehouse stock, with owner-occupiers being more active in this market.

Rents have remained relatively stable despite the downturn in the local Cairns economy despite reduced tenant and buyer demand. The limited stock availability is expected to support values in the short to medium term. The secondary market, along with smaller industrial units and land, remains subdued and any improvement will depend on a general recovery in the local economy.

The Cairns retail market appears to be at or near the bottom of the cycle. Sales volumes remain low and sales have tended to be in mixed use retail/office premises.



Grafton & Florence Streets, Cairns

While the downturn in the local economy has led to a reduction in consumer and tourism spending, near CBD prime retail space remains near full occupancy.

Prime retail CBD rents have remained in the \$600 to \$1,500 per square metre per annum range and for prime locations along the Cairns Esplanade between \$1,000 and \$2,500.

The former Tropical Arcade, which has been totally redeveloped to become the new Cairns Square complex, has seen solid demand and premium rents for ground level space.

Retail yields in Cairns have remained stable at between 7.5 percent and 8.5 percent.

In July, Cairns recorded one its largest sales with a three-storey office building at 120 Bunda Street being sold for approximately \$19 million. The building was developed by Central Park Pty Ltd has been bought by Mineral Resources Lihir Capital Ltd. It is believed to be the biggest sale in the CBD since former developer Tom Hedley sold the Sheridan Street Citi Central building in 2008 for \$23.5 million.

Meanwhile, the operators of Cairns Airport have called for expressions of interest for commercial activities across a wide area of the airport. The expressions of interest include a business park, offices, leased space in both domestic and international terminals, general aviation and greenfield sites. There are 10 leases at the business park covering 6.67 hectares with nearly 60 percent of the park already leased by rental car companies, the Civil Aviation Safety Authority and the Australian Quarantine and Inspection Service.

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 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.

Grafton & Florence Streets, Cairns, QLD

Net Building Income: \$1,008,434

Vacancy Rate: Nil

This property continues to perform in line with expectations. In order to maintain the presentation standard of the property, an external cleaning and painting program was undertaken in August 2010.

The property was revalued for the 30 June 2010 accounts at \$11,100,000, which represents an increase of 3.74% on the 31 December 2009 valuation of \$10,700,000.



Grafton & Florence Streets, Cairns

DISTRIBUTIONS

Distributions continue to be paid on a quarterly basis at 10.5 cents per unit per annum. In accordance with the letter sent to investors on 15 July 2010, the distribution payment dates have been aligned with other APGF managed funds and distributions will be paid in January, April, July and October. To align the payment dates, a special distribution was paid to investors on 15 July 2010 for the month of June. The next distribution will be paid on 15 October 2010 for the September quarter.

BANK DEBT

The Fund continues to meet its loan covenants under the facility agreement. APGF has successfully negotiated an extension of the \$4,800,000 debt facility with St George Bank to February 2012. The new facility agreement includes an increase in the Interest Cover Ratio (ICR) covenant from 1.5 to 1.6 times.

FUND SUMMARY

As at 30 June 2010	
Net Tangible Assets Per Unit	\$1.52
Loan to Value Ratio (LVR)	43.2%
Interest Cover Ratio (ICR)	3.0 times*
Weighted Average Lease Expiry	1.86 years
Independent property valuation for 30 June 2010 accounts	\$11,100,000
Maturity Date	5 February 2013**

* For the twelve months to 30 June 2010.

** The maturity date indicates the latest date by which the Manager must have completed the wind up process i.e. property sold, proceeds distributed and syndicate deregistered under the current term.

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.

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We welcome your feedback on this June 2010 Quarterly Investors' Report. You can contact us at info@apgf.com.au.

AUSTRALIAN PROPERTY GROWTH FUND

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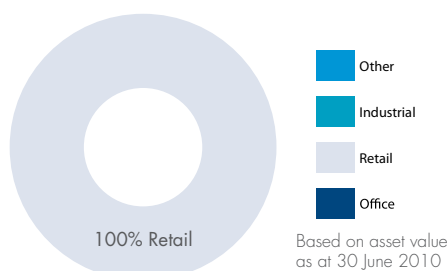
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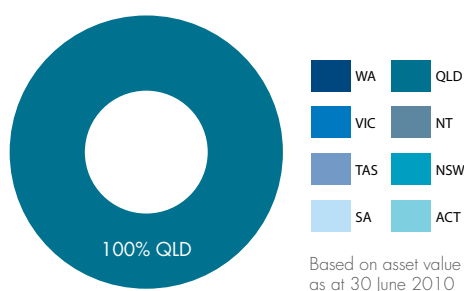
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DIVERSIFICATION BY LOCATION



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