

# PENRITH PROPERTY SYNDICATE

March 2010

## QUARTERLY INVESTORS' REPORT

June 2010



Luis Garcia  
General Manager  
Funds Management



Bridget Woods  
Investor Relations  
Manager

IN THE CONTEXT OF AN UNEVEN GLOBAL RECOVERY, AUSTRALIA AND THE NEWLY INDUSTRIALISED ASIAN ECONOMIES HAVE STARTED STRONGLY AND ARE LIKELY TO STAY IN THE LEAD.

### ECONOMIC OVERVIEW

While economic conditions have improved, there is still an air of uncertainty about the sustainability of the recovery from the Global Financial Crisis (GFC). This uncertainty is being fuelled by continued shocks, such as the European sovereign debt crisis, which have been a feature of global markets since the GFC.

The ongoing concerns about a European sovereign debt default have triggered gyrations on global equity markets. In May there was a short-lived but dramatic nine percent dive on Wall Street, followed by continued equity market sell-offs around the world.

Despite the ructions on world equity markets, the Reserve Bank of Australia (RBA) has provided commentary that the domestic economy was continuing to expand at a reasonable pace as commodity markets strengthened. The ongoing strength in global, and particularly Chinese steel production, was driving strong demand for steel-related commodities.

The RBA's positive view has been supported by the International Monetary Fund (IMF), which recently confirmed our nation continued to outperform the major advanced economies and is a leader in the global economic recovery.

The IMF has stated that in the context of an uneven global recovery, Australia and the newly industrialised Asian economies have started strongly and are likely to stay in the lead.

According to the IMF, Australia will grow by 3.0% in 2010 and 3.5% in 2011. Australia's growth outlook is stronger than that of all other advanced economies as a whole, which are forecast to grow a combined 2.3% in 2010 and 2.4% in 2011, after contracting by 3.2% in 2009.

The RBA has also indicated domestic interest rates may be on hold for some time, stating that monetary policy was "well placed for the present". Since October 2009, the RBA has increased interest rates six times, lifting the cash rate to 4.5% in early May 2010. The approach has been designed to keep the economy from overheating.

The majority of industry experts are now in accord that commercial property values are at or near the bottom of the cycle. However there is unlikely to be any noticeable appreciation in property values until global investment and financial markets work through the issues still plaguing Europe and the USA. APGF's view is that the worst of the GFC is behind us, but commercial property is unlikely to see any marked improvement in values until 2011.

Recent surveys indicate that many institutional and property investors believe Australia is currently at around 7 o'clock on the property cycle clock used to measure markets, with the top of the market at 12 o'clock and the bottom at 6 o'clock. If Australia's property market reaches 8 to 9 o'clock in the cycle by early next year, this will signal the market is in an upswing.

*continued on page 2*

## ECONOMIC OVERVIEW

*continued from page 1*

When values turn, this will be due to improved leasing conditions and a shortage of commercial office space supply as the economy expands.

Until conditions improve, the market will be dominated by cashed-up buyers looking for cheap commercial real estate offerings from distressed sellers. This is certainly not the time to be selling commercial property.

Throughout the challenging conditions of the past two years, APGF emphasised the importance of looking through the cycle and focussing on long-term property fundamentals. This has guided our approach to minimising real estate divestment until property values improve, rather than selling at a low point in the cycle. We are confident we have the property and funds management skills and experience to actively manage our syndicates and funds to maximise investors' value as conditions improve.

Now that the worst of the GFC appears to be behind us, APGF's focussed approach has ensured that the majority of our managed property funds are in a position to take advantage of recovering values.



WHEN VALUES TURN, THIS WILL BE DUE TO IMPROVED LEASING CONDITIONS AND A SHORTAGE OF COMMERCIAL OFFICE SPACE SUPPLY AS THE ECONOMY EXPANDS.

## ANNUAL INVESTOR PRESENTATIONS

APGF's annual investor presentation road show will commence in late July 2010. These presentations provide investors with an update on APGF and its strategy, property and economic overviews and how this affects your investment.

The event also offers investors the opportunity to discuss their specific fund with APGF's management team during a drinks and canapé session following the one-hour presentation. Further details, including venues, will be provided regarding the presentations at which time you will be invited to RSVP for an event. Listed below are the dates we will be in each capital city. The presentations will commence at 6:30pm.

**MELBOURNE** Tuesday, 27 July 2010

**ADELAIDE** Wednesday, 28 July 2010

**PERTH** Thursday, 29 July 2010

**BRISBANE** Tuesday, 3 August 2010

**SYDNEY** Thursday, 5 August 2010

## PROPERTY MARKET UPDATE

### SYDNEY

New South Wales property markets are expected to improve throughout 2010, however Sydney's office market is being constrained by a marginal increase in overall vacancy.

Sydney's overall metropolitan office vacancy rate increased slightly to 9.4% in January 2010, however leasing incentives, rents and yields have stabilised due to tenant demand. Sub-lease availability, which is a key indicator driving the improvement in sentiment, fell from 2.23% in the fourth quarter of 2009 to 1.88% of total stock in the first quarter of 2010.

Reduced office rental values and increased incentives have been favourable for industrial property tenants in the Sydney market. However there has been more positive news for owners, with a stabilisation of yields over the past six months due to improved business confidence and a recovering economy.

While there is a threat of further softening yields in 2010, industrial properties situated in prime locations such as South Sydney will continue to attract investors looking for opportunities. In late 2009 a number of property fund managers started returning to the market, purchasing assets such as established office/warehouses on yields of approximately 9%.



Private investors continue to dominate Sydney's retail market, accounting for half the retail transactions in 2009. While debt funding will continue to be an issue, institutional investors are expected to return to the market this year. Yields are also expected to stabilise in 2010 due to low supply and steady demand.

*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 and Canberra 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 March 2010. Vacancy Rate as at 31 March 2010.*

### **589 High Street, Penrith, NSW**

Net Building Income: \$684,322

Vacancy Rate: Nil

The new seven-year lease with Centrelink is close to being executed. We await an executed lease from the Commonwealth Government, at which point we will undertake the improvements as agreed under the new lease. The works include painting the exterior of the building,

contributing to the cost of re-carpeting and increasing the energy star rating from just under 4 stars to 4.5 stars through the installation of a CO2 controller in the car park which will reduce carbon dioxide levels within the car park and minimize CO2 impact on the environment.

As previously reported, once the new lease is agreed with Centrelink the manager will schedule a meeting of investors and provide a detailed report on the position of the Syndicate to enable investors to make an informed decision on the future of the Syndicate.



589 High Street, Penrith

## DISTRIBUTIONS

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

For the 2010 financial year it is forecast that the taxable income of the Fund will exceed the cash distributions paid. To reduce the tax effect on investors, APGF is proposing to make a one-off special distribution of \$3,333.33 per 1/15th share in June 2010.

## BANK DEBT

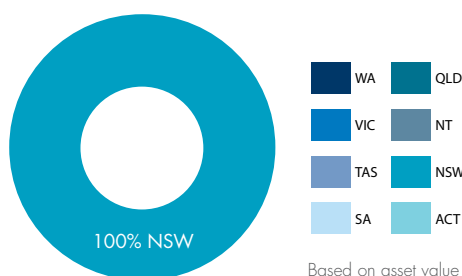
The current debt facility expires on 12 July 2010. Subject to the following conditions, the Commonwealth Bank of Australia will extend the facility to 30 June 2011:

- Interest Cover Ratio of 1.5 times is maintained at all times
- Weighted Average Lease Expiry to exceed two years
- Loan to Value Ratio to not exceed 65%
- Provide evidence that the Centrelink lease has been extended for a minimum of three-years with terms being satisfactory to the Bank.

## DIVERSIFICATION BY SECTOR



## DIVERSIFICATION BY LOCATION



APGF'S ANNUAL INVESTOR PRESENTATION ROAD SHOW WILL COMMENCE IN LATE JULY 2010. THESE PRESENTATIONS PROVIDE INVESTORS WITH AN UPDATE ON APGF AND ITS STRATEGY, PROPERTY AND ECONOMIC OVERVIEWS AND HOW THIS AFFECTS YOUR INVESTMENT.

## FUND SUMMARY

As at 31 March 2010

Net Asset Value Per Unit	\$0.84
Loan to Value Ratio (LVR)	53.2%
Interest Cover Ratio (ICR)	3.3 times*
Weighted Average Lease Expiry	0.53 years
Current valuation / date valued	\$7,000,000 / 31 December 2009
Maturity Date	To be determined at an investor meeting following the extension of the lease with Centrelink

\* For the nine months to 31 March 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 March 2010 Quarterly Investors' Report. You can contact us at [info@apgf.com.au](mailto:info@apgf.com.au).

