

# DOMAINE SEQ GROWTH FUND

ARSN 115 639 971

SEPTEMBER 2010

## QUARTERLY INVESTORS' REPORT

December 2010



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## ECONOMIC UPDATE

The operation and performance of Australian property funds continues to be adversely impacted by the fallout from the global economic downturn and the resultant credit squeeze, which commenced in late 2007. While uncertainty about the global economy remains high, the Australian economy continues to perform soundly relative to its North Atlantic peers. However, economic conditions in Australia are subdued in all sectors with the exception of mining and resources.

The general outlook for the Australian property market remains subdued for the next 12 to 18 months, as bank finance is likely to remain constrained and costly. Financing constraints will remain the most significant issue confronting Australian property over this period. As a result, valuations are expected to move sideways or only increase marginally during this phase of the property cycle.

Australian business confidence remains positive according to recent surveys, however the surveys have also revealed patchy business conditions, amplifying concerns of an uneven recovery.

These uncertain business conditions do not bode well for the property market in the short term, however there has been some renewed investor interest in residential and commercial property. This has been evidenced by recent surveys showing that commercial, industrial, retail and residential sectors are at, or close to, the bottom of the property cycle. Sydney and Melbourne markets appear to be closely aligned, with Melbourne expected to move ahead

in commercial and retail sectors over the next year. There is also an expectation that Brisbane may remain slightly behind across all property classes for the next few years.

On the demand side, commercial property transactions in excess of \$5 million rebounded to \$2.6 billion in the third quarter in 2010, up 75 percent on last year. The office sector attracted the majority of investor funds, accounting for 70 percent of transactions in the quarter, industrial property accounted for 23 percent of all sales in the quarter, and retail accounted for 7 percent.

Meanwhile, leasing enquiry levels increased by 38 percent in capital cities including Melbourne, Sydney, Brisbane and Perth in the 12 months to September 2010. This indicates commercial property markets will continue to improve, particularly in Sydney and Melbourne where office markets are expected to experience supply constraints.

Importantly, demand and supply fundamentals, in most property markets, are in reasonable balance. As the economy recovers, tenant demand will lift and eventually flow through to rents and values, however this is unlikely to occur until 2011/12.

As a further positive sign of the strength of Australia's financial system, the Reserve Bank of Australia (RBA) advised in September 2010 that stock of non-performing assets on bank balance sheets was stabilising at a lower level than in previous cycles and access to funding markets had improved.

This is not an asset of the Fund

UNCERTAIN BUSINESS  
CONDITIONS DO  
NOT BODE WELL  
FOR THE PROPERTY  
MARKET IN THE  
SHORT TERM,  
HOWEVER THERE  
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IN RESIDENTIAL  
AND COMMERCIAL  
PROPERTY.

## APGF WEBSITE

APGF has recently updated its website, [www.apgf.com.au](http://www.apgf.com.au) to improve usability and ensure investors have access to important information regarding their investments. Under the Unlisted Funds section, investors will find updates, property details and the latest Fund summary including Net Tangible Assets per unit and financial metrics of the Fund. The Fund summary will be updated on a quarterly basis. We welcome your feedback on our website to [info@apgf.com.au](mailto:info@apgf.com.au).

## HOLIDAY OFFICE CLOSURE

APGF will close for the Christmas period at 3pm on Friday, 24 December 2010, and will re-open on Tuesday, 4 January 2011. We wish investors a safe and happy holiday season.

## INVESTOR REPORTS

In 2011, APGF will amend its investor reporting cycle to half-yearly reports. Investors will receive reports for the six months ending June and December commencing 1 January 2011. 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). APGF will continue to keep investors informed of important information by letter, investor bulletin or APGF's website. APGF's Investor Relations Team can be contacted during business hours on 1300 668 698.

## PROPERTY MARKET UPDATE

### BRISBANE

Brisbane's CBD office market recorded positive net absorption in the September 2010 quarter of 24,800 square metres. As a result, the vacancy rate in Brisbane's CBD declined 1.3 percentage points to 9.3 percent.

The rate of rental decline also slowed in Brisbane CBD during the quarter (down 2.7 percent). Gross face rents ranged from \$725 to \$800 per square metre for premium CBD office space; \$550 to \$685 per square metre for A Grade CBD office space and \$450 to \$550 for B Grade CBD office space. Gross face rents ranged from \$425 to \$525 per square metre for A Grade city fringe office space and \$300 to \$400 per square metre for B Grade space.

There were heightened levels of activity from public sector tenants in Brisbane's CBD during the latest quarter. While major mining firms have yet to commit to new leases, the level of inquiry is rising and is expected to result in growing activity in 2011.

Prime CBD properties are tightly held and are achieving strong premiums when they come to market. Major transactions

included the Santos House sale for \$287 million representing a yield of 8.14 percent and the 46 Charlotte Street sale for \$16.4 million with an 8.4 percent yield.

As a result of port traffic declining by 5 percent in the past 12 months, there has been a dramatic fall in demand for industrial space. It is expected to take a number of years before the industrial market recovers to historical levels. However, with Consumer Price Index (CPI) growth likely in 2012, landlords can anticipate some recovery in rents by next year as tenant demand improves.

A recovery in investment yields and capital values is also expected to occur given current investor demand for prime industrial stock. An estimated \$400 million worth of industrial investment transactions occurred in 2009/10, which was only slightly below the previous financial year. As a result of recent investor activity, there has already been a 25 to 50 basis point compression in yields from 8.5 percent to 8 percent during the past 12 months. There has also been an increase in the amount of sub-lease stock coming onto the market over the past three months – approximately 40,000 square metres in the southern and western corridors.



Retail investment property has performed reasonably well, with the exception of bulky goods, which has experienced a significant fall in values. The gap has widened between prime and secondary properties, with yields for prime properties softening in the range of 0.5 percent to 1 percent, while secondary yields have softened by up to 2 percent.

Those retail properties outside the CBD in established retail precincts with strong tenants, supermarket anchor tenants, and a high weighted average lease expiry are keenly sought after by investors, but supply remains limited. Sub-\$3 million retail assets are seeing the strongest interest from investors and these properties are achieving yields of between 7.5 percent and 8.5 percent. Outer-suburban secondary retail assets with inferior tenant mixes are achieving yields as high as 9.5 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, Canberra, Gold Coast, and Hobart please request a copy by email to [info@apgf.com.au](mailto:info@apgf.com.au) or by phone to 1300 668 698.*



## ASSET MANAGEMENT

*Note: Net building income is for the 12 months to 30 September 2010. Vacancy rate is at 30 September 2010.*

### Calamvale Shopping Centre

Net Building Income: \$3,027,057

Vacancy Rate: 5%

The Centre is now 95% leased with only 12 vacant shops remaining to lease. This is down from 29 vacant shops in April 2009 when APGF acquired the Fund's Responsible Entity. Our asset management team continues its negotiations with two ladies fashion retailers which have both commenced as casual tenants in the Centre until lease terms are agreed and finalised. A dry cleaner has also commenced on casual terms within the Centre.

### Mt Gravatt Village Shopping Centre

Net Building Income: \$2,582,796

Vacancy Rate: 8%

Three vacant tenancies remain which comprise two retail and one commercial office suite totalling 637 square metres. When APGF acquired the Fund's Responsible Entity in April 2009, there were eight vacant tenancies totalling 797 square metres. APGF's asset management team will continue to focus on leasing the vacant space.

### 333 Ann Street, Brisbane

Net Building Income: \$9,730,237

Vacancy: Nil

APGF continues its investigation into the NABERS energy star rating. Works to be undertaken over the next 12 months on chillers and controls should increase the energy star rating, however it is likely a fourth small air conditioning chiller may be required to be installed for the tenants' computer server rooms.

Two tenants are currently in rental arrears totalling \$300,000. The arrears are expected to be recovered from the tenants during the next few months. APGF does not envisage any issues in relation to recovering these amounts.



### Yatala

Net Building Income: \$1,290,803

Vacancy: Nil

An offer has been received from a prospective purchaser and the Manager is awaiting exchange of contracts. Details on the sale will be provided once contracts have been exchanged and a settlement date has been set. There are no material issues with the property and investors will be kept informed throughout the sale process.

Should the property sell the sale proceeds will be used to reduce the debt facility.

### CB1 & CB2

Net Building Income: \$8,028,141

Vacancy: Nil

The rental arrears have been reduced from \$98,000 since the June 2010 report to \$60,000 as at the date of writing. The outstanding amount will be repaid by 31 December 2010.

The first lease expiry occurs in June 2011 and is a small retail tenancy of 29 square metres on the ground floor. It is unlikely the current tenant will renew its lease however it is also unlikely there will be any issues in re-releasing the space to a new tenant.

## BANK DEBT

The Fund is meeting its covenants under the debt facility, however it must ensure the loan to value ratio (LVR) covenant is reduced to 65 percent by 31 December 2011. Bank debt will continue to be reduced through the sale of assets during the 2011/12 financial year and quarterly principal loan repayments of \$1.5 million.

## DISTRIBUTIONS & LIQUIDITY

Distributions will remain suspended until such time that the terms and conditions under the loan facility agreement have been satisfied. As previously reported, there is unlikely to be a liquidity event until the Fund's scheduled review date in September 2012. However, the Manager is continuing to investigate options to provide some liquidity to investors.

## FUND SUMMARY

AS AT 30 SEPTEMBER 2010	
Fund Size	\$331,003,468
Net Tangible Assets Per Unit	\$0.56
Loan to Value Ratio (LVR)	65.9%
Interest Cover Ratio (ICR)	1.6 times*
Weighted Average Lease Expiry	5.18 years
Independent property valuation for 30 June 2010 accounts	\$324,300,000

\* For the three months to 30 September 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 September 2010 Quarterly Investors' Report. You can contact us at [info@apgf.com.au](mailto:info@apgf.com.au).

### AUSTRALIAN PROPERTY GROWTH FUND

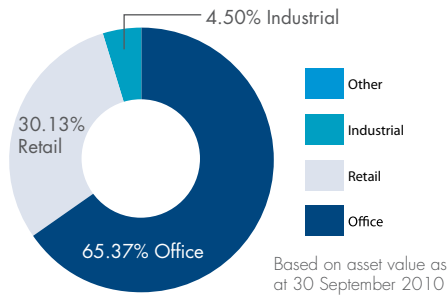
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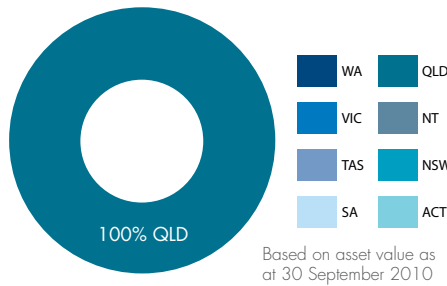
[www.apgf.com.au](http://www.apgf.com.au)



## DIVERSIFICATION BY SECTOR



## DIVERSIFICATION BY LOCATION



AS THE ECONOMY RECOVERS, TENANT DEMAND WILL LIFT AND EVENTUALLY FLOW THROUGH TO RENTS AND VALUES.