

DOMAINE DIVERSIFIED PROPERTY FUND

ARSN 108 289 827

SEPTEMBER 2010

QUARTERLY INVESTORS' REPORT

December 2010



Luis Garcia
Senior Manager
Funds Management



Bridget Woods
Investor Relations
Manager

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.

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 is not an asset of the Fund

APGF WEBSITE

APGF has recently updated its website, 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.

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. 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.

SYDNEY

Sydney's CBD office market has achieved net absorption of 27,600 square metres during the September 2010 quarter. Despite the low net absorption, the vacancy rate increased to 8.1 percent, with two-thirds of the increase occurring in the secondary office market.

There have been some positive signs for the Sydney CBD office market with the decline in sub-leasing activity to 1.2 percent of total stock, the lowest level since 2008.

Prime gross rents have stalled over the past 18 months in the CBD and there is unlikely to be much movement until the vacancy rate tightens further. Gross face rents ranged from \$845 to \$1,400 per square metre for Sydney CBD premium office space; \$655 to \$970 per square metre for A Grade space; and \$485 to \$630 per square metre for B Grade space.

Industrial property accounted for 23 percent of Sydney property transactions including all office, retail and industrial sales during the third quarter of 2010. The industrial sales tally was supported by a number of major industrial transactions including the \$210 million-plus sale of the Salta portfolio.

Sydney's central west and western industrial markets have displayed their resilience following a number of significant sales and leasing transactions. In Western Sydney, Goodman Group and Brickworks recently announced the development of two new pre-committed facilities at Oakdale Industrial Estate at Sydney's Eastern Creek. Net face rents in Western Sydney currently range from \$95 to \$115 per square metre for prime industrial space and from \$70 to \$95 per square metre for secondary industrial space. Sydney's central west has arguably been the strongest performer with higher rental rates and low vacancy rates.

The Sydney CBD retail market remains one of the more attractive property markets in Australia. Despite strong demand for property in this sub-market, supply remains limited with vacancy rates at below 1 percent.

Retail rents in the Sydney CBD range between \$4,700 and \$13,000 per square metre for super prime space (yielding between 6 percent and 7 percent); \$950 to \$4,500 per square metre for prime space (yielding between 5.5 percent and 7.55 percent) and \$530 and \$2,300 per square metre (yielding between 6.75 percent and 8.5 percent) for secondary space.

The Pitt Street Mall is currently being redeveloped and this is set to strengthen this super-prime retail precinct. The \$1.2 billion project comprises most of the Sydney Tower block between Pitt Street Mall and Castlereagh Street. The development includes a seven-level mall, which amalgamates the old Imperial, Glasshouse and Centrepoint Shopping Centres to create 250 new shops in addition to a new commercial tower, a rooftop bar precinct and an upgrade of the office building at 100 Market Street.

Bondi and Newtown retail precincts have been among Sydney's best performers. The Bondi retail precinct is achieving prime rent values in Campbell Parade ranging between \$900 and \$1,600 per square metre and yields of below 6 percent, while Newtown's prime retail hub in King Street currently has a vacancy rate of approximately 3.5 percent with rents ranging between \$700 and \$1,510 per square metre.

MELBOURNE

The Melbourne CBD office market achieved positive net absorption of 22,900 square metres during the third quarter of 2010. Despite this net absorption, the vacancy rate increased to 6.6 percent, with demand for prime space remaining strong. The prime office space vacancy rate tightened to 4.3 percent while the secondary grade vacancy rate increased to 9.7 percent.

A key driver for the Melbourne market has been the expansion of retail banks. This was further evidenced by the National Australia Bank's recent commitment to 7,200 square metres of sub-lease space in the Queen Victoria Building. Meanwhile, gross effective rents increased 1.2 percent in the latest quarter for an 8.2 percent increase for 2010. Gross face rents for Melbourne CBD range from \$530 to \$780 per square metre for premium office space; \$500 to \$635 per square metre for A Grade office space; and \$330 to \$455 for B Grade office space.

Demand for industrial property in Melbourne is recovering as activity in the distribution, transport and wholesale trade sectors improves in line with the economy, and container movements through the Port of Melbourne recover.

The latest International Monetary Fund (IMF) outlook report for world trade volumes paints a further positive picture for Melbourne industrial sector demand. The report confirms world trade volumes for goods and services suffered a decline of 11 percent in 2009, however this is forecast to increase 11 percent for 2010. Projections for 2011 have trade volumes increasing by a further 7 percent.

On the supply side, industrial construction activity in Melbourne has slowed to its

lowest level in more than a decade. Rising demand and limited supply has led to prime industrial vacancy rates falling significantly over the past 12 to 18 months, but not enough to support a recovery in rents.

A local developer recently paid \$17 million at auction for a major development site in Dandenong South – a hub of industrial activity in Melbourne's south-east. Industrial-zoned land in the south-east is in more limited supply than in the western and northern suburbs, and on that basis attracts higher land values and rents. Net effective rents for the south-east area range from \$75 to \$95 per square metre for prime industrial land, while in the north and west the range is \$65 to \$75 per square metre for prime space.

Melbourne's net migration, retail spending and potential for increased tourism activity is expected to boost the retail property market over the next 18 months. Demand has recently been strong for ground floor properties priced up to \$3 million. Yields on recent sales have ranged from 4.5 percent to 6.5 percent with high profile sales including retail properties at 480 Collins Street, 200 Spencer Street, 150 Little Collins Street and 1 Queens Road.

Despite the economic downturn, prime retail strips in Melbourne remain tightly held and are keenly sought after. These prime strip sites comprise Church Street, Brighton, Chapel Street, Windsor to South Yarra and Burke Road, Camberwell. Net rents in Burke Road range from approximately \$800 to \$1,200 per square metre; in Church Street from \$400 to \$800 per square metre; and Chapel Street from \$1,000 to \$1,500 per square metre. Investors are prepared to pay premium prices for properties in these precincts resulting in relatively tight yields.

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 & 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 September 2010. Vacancy rate as at 30 September 2010.

11 Murray Dwyer Circuit, Mayfield West, NSW

Net Building Income: \$474,791

Vacancy Rate: Nil

The engineering report commissioned last quarter determined some damage had been caused to the roof following heavy rain in July 2010. The areas requiring immediate attention have been repaired however should we be required to replace the roof, estimated costs of approximately \$25,000 have been determined. At this stage we do not intend to replace the roof.

Centrelink Building, 19-27 Devlin Street, Ryde, NSW

Net Building Income: \$299,840

Vacancy Rate: Nil

In conjunction with the Fund's requirement to replace the carpet as per the lease agreement, APGF has submitted a lease proposal to Centrelink to extend the current lease expiry from 2014 to 2017. We await Centrelink's response to this proposal.

It has been identified that the majority of the air conditioning units have reached the end of their life cycle and need replacing. Five units were replaced in November 2010 with an additional three units being replaced in the 2011/12 financial year. The cost for the five units amounts to approximately \$95,000 and will be funded from the Fund's working capital.

37 William Angliss Drive, Laverton North, VIC

Net Building Income: \$1,514,681

Vacancy Rate: Nil

There are no material issues to report on this property and it continues to perform in line with the manager's expectations.

518 Brunswick Street, Brisbane, QLD

Net Building Income: \$1,272,019

Vacancy Rate: Nil

The property is fully leased to Bechtel until December 2011 with a three-year option, which must be exercised by 30 June 2011. As previously reported, Bechtel is undertaking a feasibility study for a new project and whether Bechtel proceeds with the project will determine if it exercises its three-year option. APGF continues to work closely with the tenant however we intend to market the property for lease in early 2011.

Belmont Central, Belmont, NSW (Ownership Interest 50%)

Net Building Income: \$2,094,165

Vacancy Rate: 6%

The tenant looking to lease shops T2 and T3 as reported last quarter has elected not to proceed. There remain six vacancies for lease within the Centre and leasing remains the highest priority for this property.

BANKING & DISTRIBUTIONS

Suncorp continues to provide short term extensions on the \$29.64 million debt facility. Following the recent Review Meeting held on 10 December 2010 where investors voted for the Fund to be terminated, APGF will now commence the wind-up of the Fund, beginning with an orderly sale of the properties. The sale proceeds will initially be used to retire debt with Suncorp. APGF's objective throughout the process will be to preserve as much value as possible for investors.

FUND SUMMARY

AS AT 30 SEPTEMBER 2010	
Fund Size	\$43,660,780*
Net Asset Value Per Unit	\$0.25
Loan to Value Ratio (LVR)	76.3%
Interest Cover Ratio (ICR)	1.6 times**
Independent property valuation for 30 June 2010 accounts	\$39,075,000***

* Excludes the 50% interest in Belmont Shopping Centre, which is approximately \$2.3 million.

** For the three months to 30 September 2010.

*** Excludes 50% interest in Belmont Shopping Centre which was independently valued at \$28,200,000 in June 2010.

DISCLAIMER

This 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.

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

AUSTRALIAN PROPERTY GROWTH FUND

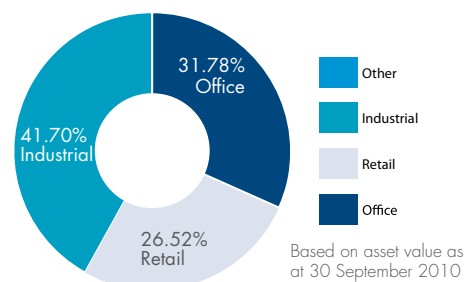
Level 15, 12 Creek Street, Brisbane QLD 4000

GPO Box 31119, Brisbane QLD, 4001

T: 1300 668 698 E: info@apgf.com.au

www.apgf.com.au

DIVERSIFICATION BY SECTOR



DIVERSIFICATION BY LOCATION

