

# PENRITH PROPERTY SYNDICATE

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.

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](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

### SYDNEY

Sydney's CBD office market has achieved net absorption of 27,600 square metres during the September quarter 2010. 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.

*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.*

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

Net Building Income: \$636,000  
Vacancy Rate: Nil

The new seven year lease to Centrelink commenced on 13 October 2010.

As part of the lease negotiations, works have commenced to improve the energy efficiency and the aesthetics of the property. The focus for the next quarter is to monitor energy consumption levels to ensure alignment with the target 4.5 star NABERS rating. In addition, APGF's asset management team is seeking estimates to re-carpet and paint the property in 2011.

589 High Street, Penrith



## SYNDICATE UPDATE

The meeting of investors scheduled for the last quarter of 2010 to determine the future of the Syndicate has been postponed.

APGF is concerned about the ability to maximise the value that could be achieved from sales in present economic conditions, and expects any offer for the property in today's market to be below the current valuation. APGF will continue to closely monitor the property market and a recommendation will be made to investors in the New Year.

In accordance with the Syndicate Agreement, the property must be sold before March 2012, being twelve years after the first Syndicate application was made.

APGF invites investors to provide their comments regarding the timeframe for the sale of the property to APGF's Investor Relations Team, either by telephone to 1300 668 698 or by email to [info@apgf.com.au](mailto:info@apgf.com.au).



589 High Street, Penrith

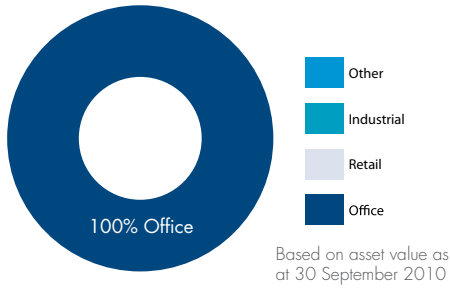
## DISTRIBUTIONS

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

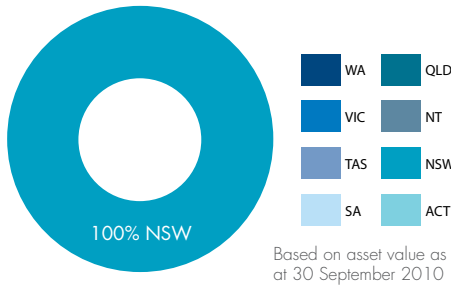
## BANK DEBT

The Commonwealth Bank of Australia continues to finance the \$3,725,000 debt facility, which expires on 30 June 2011. The Syndicate continues to meet the loan covenants under the facility agreement.

## DIVERSIFICATION BY SECTOR



## DIVERSIFICATION BY LOCATION



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

## FUND SUMMARY

AS AT 30 SEPTEMBER 2010	
Net Tangible Assets Per Unit	\$0.88
Loan to Value Ratio (LVR)	53.2%
Interest Cover Ratio (ICR)	2.7 times*
Weighted Average Lease Expiry	7.03 years
Property valuation for 30 June 2010 accounts	\$7,000,000
Maturity Date	21 March 2012

\* For the three months to 30 September 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.

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 September 2010 Quarterly Investors' Report. You can contact us at [info@apgf.com.au](mailto:info@apgf.com.au).

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