Core Property
Fund Research & Ratings
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Unlisted Property Fund Report

333 Exhibition Street Property Fund

March 2018

Melbourne CBD office leased to The University of Melbourne targeting 6.5%+ distributions

333 Exhibition Street Property Fund

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About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research covers sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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333 Exhibition Street Property Fund

March 2018

The 333 Exhibition Street Property Fund ("the Fund") is a single asset, unlisted property fund with an initial term of approximately six years. An investment may be made in the Fund through the subscription of units at an Offer Price of $1.00 per unit, with the Fund's Responsible Entity, Placer Property Limited (RE or "the Manager") looking to raise up to $23.5M from investors.

The Property is a modern mixed-use strata-titled building located at the corner of Exhibition and La Trobe Street in Melbourne CBD. The Net Lettable Area (NLA) is 6,528sqm comprising a ground floor and levels 1-5, all of which are leased to the University of Melbourne with a Weighted Average Lease Expiry (WALE) of 4.9 years as at 1 March 2018. Each floor is on a separate title and a separate lease to the University, which gives the RE the flexibility to:

- Renew the leases to University of Melbourne and sell the asset at the end of the initial term; or
- Re-lease the asset to another tenant, or multiple tenants (including possible subdivision of the floors) at the end of the current term; or
- Potentially sub-divide each floor into multiple strata units and sell these units at a higher amount per sqm.

The Property metrics are sound: (1) WALE of 4.9 years with a 4-year option to renew; (2) annual rent increases of 3.65%; and (3) 100% occupancy.

The Fund has established a five-year debt facility with a major bank for $19.6M with an initial drawn down of $18.9M. The debt has been hedged for the five years to November 2022 at an all-in cost of debt of 4.24%, providing a high level of certainty for investors, with only 18 months of unhedged debt. The initial Loan to Valuation Ratio (LVR) on drawn debt is 47% against a bank covenant of 60% (reducing to 55% in October 2020).

Core Property notes that prior to December 2022 the Fund will need to establish a new debt facility at the same time as the leases fall due with the LVR at 49% and close to the bank covenant of 55%. We expect Placer to manage the lease expiry well before this time in order to mitigate any risks. Our base case is the lease is renewed on similar terms and the debt facility is extended for the full term of the Fund, however a change in market conditions may impact unitholder returns during this period.

Fees paid by the Fund are consistent with what Core Property has seen in the market.

The Manager is forecasting the Fund to deliver a 6.5% p.a. annualised distribution yield for FY18 and FY19. Core Property estimates that distributions will average 6.7% p.a. over the initial six-year term of the Fund, based on the Manager's assumptions for rental income including a draw-down on the rental guarantee in place for the first three years of the Fund term. Based on the Manager's forecasts, Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 7.3% - 10.8% (midpoint 9.1%) over the initial six-year term.

Investor Suitability

Core Property considers the Fund will appeal to investors seeking a property income exposure with a high level of income security from a leading Australian university. Capital gains will be dependent on the retention of the tenant to support the Property's value as well as the performance of the Melbourne CBD office market, which is currently experiencing low vacancy, strong investor demand, and good rent growth. The Fund should be considered as part of a Core investment strategy. The Fund is illiquid, and investors should expect to remain invested for the minimum initial term of six years.

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

Fund Details

Offer Open:	1 March 2018
Min. subscription Offer Closes:	31 October 2018[1]
Min. Investment:	$20,000
Initial NTA:	$0.93
Liquidity:	Illiquid
FY18 Forecast Distributions:	2.17 cpu (6.5 cpu annualised)
FY19 Forecast Distributions:	6.5 cpu
Distribution Frequency:	Quarterly
Fund Investment Period:	6 years[2]

1. The Minimum Subscription Offer is $5.9M. If the minimum subscription amount is not raised, investor monies will be returned and be eligible for a pro-rata distribution amount.
2. Initial term is six years to 30 June 2024. The Fund may be extended where certain conditions are met (see "Liquidity/exit strategy" section).

Fund Contact Details

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Note: This report is based on the 333 Exhibition Street Property Fund Product Disclosure Statement dated 1 March 2018, together with other information provided by Placer Property.

Investment Summary

Management Experience: Experienced fund manager with a solid track record of managing property funds, corporate governance, and maintaining and improving occupancy rates. In August 2017, Placer Property was acquired by KordaMentha and now forms part of the Investment Division of its Real Estate Group. KordaMentha is a leading investment and advisory firm, with over 380 staff across Australia, New Zealand and South East Asia.

Fund Term: The initial term of six years may be extended by an additional two years via a Special Resolution (more than 75% of votes cast in favour), or by up to six years if a Special Resolution is passed and all unitholders who wish to exit are able to do so at the prevailing NAV per unit. Please refer to the *Liquidity/ Exit Strategy* section for more details.

Fund structure: KordaMentha Investments (Exhibition Street) Trust has provided acquisition funding for the Property and holds Acquisition Units. The Acquisition Units will be redeemed using funds raised under the Offer. The minimum subscription amount, being $5.9M, will be first applied to repay some debt to reduce the Fund's LVR to 47% and thereafter funds raised under the offer will be used to redeem the acquisition units. (See *Fund Overview* for details)

Property: The Property metrics are sound: 1) a single asset strata-titled building fully leased to University of Melbourne. 2) 100% occupancy 3) WALE of 4.9 years with a 4-year option to extend the leases at expiry, between December 2022 to March 2023.

Investment Strategy: Management's state intention is to increase net rental income via minimising operating costs, seeking value add opportunities given the significant level of building activity in and around the precinct, retaining University of Melbourne as a tenant, and maintain a close relationship with the other owners corporation members (that own the hotel and car park) to improve the quality of the offering at 333 Exhibition St.

Owners Corporation: The Property includes interests in two Owners Corporations (OC) given the strata titles. The Fund has a 16.4% interest in Owners Corporation 1 (OC1) which covers the common areas, insurance and common Plant & Equipment shared with the apartment owners (Mantra) and the car park. The Fund also owns a 100% interest in Owners Corporation 2 (OC2) being the strata entitlements for the offices. The proportionate expenses of OC1 and OC2 are included in the Financial forecasts.

Rental Guarantee: A Rental Guarantee of $2.5M has been provided through the KordaMentha Investments (Exhibition Street) Trust. The effect of the Rental Guarantee is to offset the effect of rent reductions agreed by the previous owner under the existing leases. The rental guarantee effectively tops up the rent over the first three years of the leases.

Debt Profile: The Fund has established a five-year debt facility with a major bank for $19.6M with an initial drawn down of $18.9M. The interest rate is 100% hedged for the first five years to November 2022 at an average all-in cost of debt of 4.24%. The initial LVR is expected to be 47% against a covenant of 60% (reducing to 55% in October 2020). The LVR is forecast to peak at 49% in FY23 against a 55% bank covenant, and the RE will need to renew or establish new debt facilities for the remainder of the Fund term.

Capex: The financial forecasts allow for $3.8M of capex equating to 9.7% of the initial valuation of the property and is in line with the independent expert's estimates.

Initial NTA: The initial NTA of the Fund is $0.93 per unit on the basis that acquisition costs are written off and offset by the independent valuation being higher than the purchase price.

Distributions: The Manager is forecasting distributions to be 6.5% p.a. in FY18 (on an annualized basis) and FY19 respectively.

Fees: Core Property considers the Fund's fees to be appropriate compared to its peers.

Total Return: The Fund is estimated to deliver an Internal Rate of Return (IRR) of 7.3% - 10.8% based Core Property's sensitivity analysis (see the *Financial Analysis* section).

Liquidity: Investors must accept that by their very nature, unlisted property funds are illiquid. The Manager does not provide any withdrawal facility during the initial term of the Fund and Investors should expect to remain fully invested during this period.

Investment Scorecard

Management Quality
★★★★★

Governance
★★★★☆

Portfolio
★★★½☆

Income Return
★★★☆☆

Total Return
★★★½☆

Gearing
★★☆☆☆

Liquidity
★☆☆☆☆

Fees
★★★★☆

Fund Structure

An unlisted property fund investing in an office asset located in Melbourne, Victoria.

Management

Experienced Australian fund manager with demonstrable experience in property syndication. Good mix of executive and non-executive Directors. Ability to draw upon the wider skill base of the parent being KordaMentha.

Property Portfolio

No of Properties:	1
Property Valuation:	$40M
Property Location:	Melbourne CBD, VIC
Property Sector:	Commercial
Key Tenant:	University of Melbourne – 100% of income
Occupancy:	100%
WALE:	4.9 years (at 1 March 2018)

Return Profile

Forecast Distribution:	FY18: 2.17 cents per unit (6.5 cpu annualised) FY19: 6.5 cents per unit
Distribution Frequency:	Quarterly, in arrears
Tax advantage:	FY18: 100% tax deferred distributions FY19: 98% tax deferred distributions
Estimated Levered IRR (pre-tax, net of fees):	7.3% - 10.8%
Investment Period:	Six years to 30 June 2024

Risk Profile

Property/Market Risk:	Capital at risk will depend on a single office property with a single tenant, located in Melbourne, Victoria.
Interest Rate Movements:	Interest rates have been hedged for the first five years of the Fund. Any change in the cost of borrowings may impact the distributable income in the remaining term of the Fund.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the Risks section (Section 4) of the Product Disclosure Statement.

Fees Paid

Fees paid by the Fund are consistent with what Core Property has seen in the market (see Figure 5: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Property Acquisition Fee:	2.0% of purchase price
Property Disposal Fee:	1.5% of sale price
Ongoing Management Fees:	0.85% p.a. of the Gross Asset Value (GAV) of the Fund, consisting of Management Fees (0.65% of GAV) and estimated expenses (0.20% of GAV).
Performance Fee:	20% of the outperformance of the Fund over an equity IRR of 10.0% (pre-tax, net of fees).

Debt Metrics

Initial Debt / Facility Limit:	$18.9M / $19.6M
Loan Period:	5 Years to Dec 2022
Initial LVR / Loan Covenant:	47.1% / 60% (LVR covenant reduces to 55% on 31 October 2020)
Initial ICR / Low ICR / ICR Covenant:	3.1 / 2.5x / 2.0x

Legal

Offer Document:	Product Disclosure Statement, 1 March 2018
Wrapper:	Unlisted Unit Fund
Fund Manager:	Placer Property Management Pty Ltd (ACN 165 750 078)
Responsible Entity:	Placer Property Limited (ACN 164 635 885, AFSL 442806)

Fund Overview

The Fund is a single asset property that seeks to provide investors with a predictable distribution yield averaging 6.7% p.a. over the initial six-year term of the Fund. The distributions to investors are underpinned by rental income from the asset's only tenant, University of Melbourne, and a rental guarantee being drawn down over a 24-month period.

The Fund is seeking to raise $23.5M in equity subscription, through the issue of 23.5M units at $1.00 per unit under ("the Offer"). The minimum investment amount is $20,000, however the Manager may accept investments that are less than this amount at its discretion.

Minimum subscription

As part of the offer, the Fund needs to achieve a minimum subscription of $5.9M on or before 31 October 2018. Units issued under the minimum subscription offer will be partly paid, initially paid up to $0.01 per unit. The remaining $0.99 per unit paid will be held separately by the custodian until such time the full $1.00 is invested and ordinary units are issued. This is expected to occur by 31 October 2018.

In the event the minimum subscription amount is not achieved, investors will be returned the original $1.00 per unit investment and also receive an income return of 6.5% p.a. calculated on a pro-rata basis from the date of issue of units until the date of redemption.

Fund Structure

KordaMentha Investments (Exhibition Street) Trust has provided acquisition funding for the Property and is the sole Unitholder of the Acquisition Units. The purpose of the Acquisition Units was to assist with funding the acquisition of the Property and establishment of the Fund.

The Acquisition Units will be redeemed using funds raised under the Offer. The minimum subscription amount will be first applied to repay debt to reduce the Fund's LVR to 47% and thereafter funds raised under the offer will be used to redeem the acquisition units. A related party of KordaMentha Investments (Exhibition Street) Trust, KM Custodians Pty Ltd is the sole owner of Placer Property which acts as the Responsible Entity and the Manager.

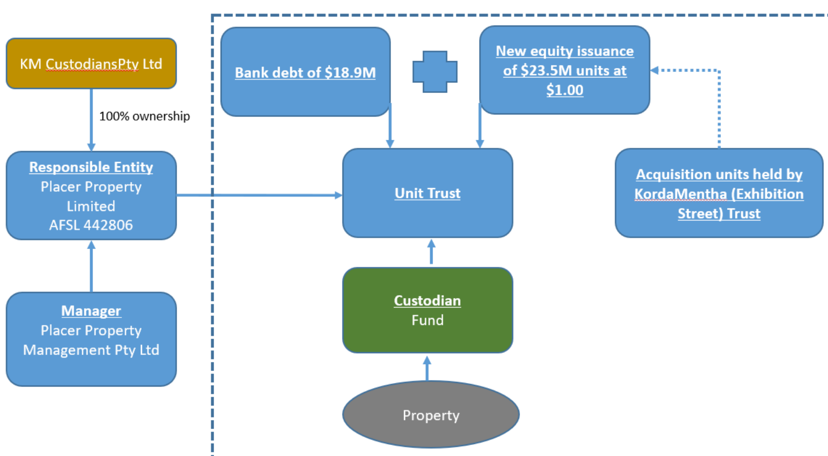
Property description

The Property is a modern mixed-use strata-titled building located at the corner of Exhibition and La Trobe Street in Melbourne CBD. The NLA is 6,528sqm comprising a ground floor and levels 1-5, all of which is leased to the University of Melbourne with a WALE of 4.9 years. Each floor is on a separate title and a separate lease to the university, which gives the Manager the flexibility to:

- Renew the leases to University of Melbourne and sell the asset at the end of the initial term; or
- Re-lease the asset to another tenant, or multiple tenants (including possible subdivision of the floors) at the end of the current term; or
- Potentially sub-divide each floor into multiple strata units and sell these units at a higher amount per sqm.

However, the base line assumption is that the Property will be sold fully occupied. Please refer to *The Property* section for more details.

Figure 1: Fund structure



Source: Core Property. Note: The chart does not take into account any strata interests

Debt Facility & Metrics

Under the Debt Facility, the Responsible Entity, on behalf of the Fund, has initially borrowed $25.025M from the bank. Part of the capital raising proceeds will be used to reduce the Debt Facility to a Bank LVR of less than 50%, estimated to be $19.6M on or shortly after the Minimum Subscription Date, equating to an LVR of 47.1%. This ratio includes the Capital Expenditure Facility, which is currently undrawn. The borrowings are secured by a mortgage over the Property and a general security over the assets of the Fund.

The initial borrowings are structured on an interest only basis. The principal is not due to be repaid until the end of the five-year loan term on 12 December 2022. Interest payments will be paid from income generated by the Property. On maturity, the loan is anticipated to be refinanced or repaid from proceeds from sale of the Property.

Based on the Manager's forecasts the LVR is estimated to be between 43% and 49% over the five-year term against a bank LVR covenant of 60% (reducing to 55% on 31 October 2020) and an ICR covenant of more than 2.0x. As such, the value of the asset needs to fall by more than 18% for the Fund to breach its initial LVR covenant. The buffer against the ICR covenant is greater such that rent income needs to fall by more than 31% for the Fund to breach its initial ICR covenant.

The RE has also entered into an interest rate swap to fully hedge the interest rate exposure for five years until November 2022. The effective interest for FY18 is 3.92% and 4.07% for FY19 with an all-in cost of debt of 4.24% over the five years.

Core Property notes the expiry of the debt facility in December 2022 will occur at the same time as the leases are due, with the LVR of 49% being close to the bank covenant of 55%. We expect Placer to manage the lease expiries well before December 2022 in order to mitigate any risks. Our base case is the lease is renewed on similar terms and the debt facility is extended for the full term of the Fund, however a change in market conditions may impact unitholder returns during this period. The debt metrics of the Fund are set out in the following table:

Figure 2: Debt Metrics

Details	Metric
Bank	NAB
Security	First ranked mortgage secured against the Property.
Debt Facility Limit	$19.6M
Initial Draw Down	$18.9M
Initial Loan Period	5 years to Dec-22
% Hedged	100% until 30 November 2022
Assumed all-in cost of Debt – FY18/ FY19/ 5 years	3.92%/ 4.07%/ 4.24%
Initial LVR / Peak LVR	47.1% / 49.0%
LVR Covenant	60% (reducing to 55% on 31 October 2020)
Initial interest covered ratio / bank covenant	2.95x / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	18.3%
Amount by which income will have to fall to breach ICR covenant	31.1%

Source: Placer Property, Core Property

Liquidity / exit strategy

Investors should view the Fund as illiquid in nature during the initial six-year term of the Fund. Investors may not withdraw from the Fund during this period, however units may be transferred/sold to other Investors. After the initial term, the Fund may be extended by a Special Resolution (more than 75% of eligible votes cast are in favour of the resolution) under the following circumstances:

- Fund term extension – Unitholders pass a Special Resolution to extend the Fund term. Any extension will not exceed two years.
- Fund term renewal (as an alternative to or in addition to the above Fund term extension) - a meeting of Unitholders passes a Special Resolution to renew the Fund term for up to another six years. A condition of renewal is that all Unitholders who wish to exit the Fund are able to do so at the prevailing NAV per unit (less transaction charges).

Sources & Application of funds

The PDS sets out the sources and application of funds for the initial term under the terms of the Offer.

Figure 3. Sources and Application of funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	23.5	61%	55%
Bank Debt	18.9	49%	45%
Total source of funds	**42.3**	**110%**	
Application			
Purchase price of property	38.4	100%	91%
Stamp duty	2.2	6%	5%
Debt & Fund establishment costs	1.3	3%	3%
Working Capital & Other	0.4	1%	1%
Total application of funds	**42.3**	**110%**	**100%**

Source: Core Property, Placer Property

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be appropriate and in line with what has been seen in the market (0.7% – 1.1%).

Core Property notes that the performance fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 10%. This is in line with industry averages.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit Fee	Nil	
Establishment and Placement Fee (Acquisition Fee)	2.0% of the purchase price of the property.	The Acquisition Fee is at the high end of the industry average of 1.5% - 2.0%.
Sale Fee (Disposal Fee)	1.5% (excluding GST) of the sale price of property.	The Disposal Fee is at the mid-point of the industry average of around 1.0% - 2.0%
Fees & Expenses - Management Fee, Administration Costs & Expenses, Other Indirect Costs	Total Management Fees of around 0.85% of the Gross Asset Value (GAV) of the Fund, consisting of: • 0.65% p.a. of GAV for Management Fees; plus • 0.20% p.a. of GAV for estimated fund expenses.	We consider the Fees to be within the range of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Performance Fee	20% (excluding GST) of the Fund's performance above a per annum IRR of 10% after fees and costs.	Fee is in line with industry expectations and considered appropriate.

Source: Placer Property/ Core Property

All-in fee analysis

In the table below, Core Property analyses how much of the Fund's cash goes to the fund's in fees, and how much is left over for investors as a percentage of the total fund cash flow. The key assumptions include:

- Calculations assume a six-year Fund term to June 2024.
- A Performance Fee has not been included;
- Core Property assumes there is no change in the forecast portfolio terminal cap rate at the end of the initial term, which effectively assumes no cap rate compression. A lower terminal cap rate would lead to a higher sale price and performance fees may become payable.

Overall, Core Property estimates that the Manager takes 7.3% of the total cash generated by the fund, which leaves investors with $1.59 per unit, or approximately 92.7% of the total. Core Property believes the fees paid to the Manager are appropriate and at the low end of the range when compared to similar products, which are typically around 7% - 9%. Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 5: Fees in Perspective

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$0.59
Total cash to investors:	**$1.59**
Acquisition fee:	$0.03
Base management fee:	$0.06
Disposal fee:	$0.03
Fees for the RE (excluding disposal/admin):	**$0.13**
Total cash generated by Fund:	**$1.72**
Fees = % of total cash generated (before fees)	7.3%
Fees= % of gains (before fees)	17.6%
Up-front fee vs total fees	27%

Source: Core Property estimates

The Property

Property Overview

The Fund has acquired the six-level office component of the building located at 333 Exhibition Street, Melbourne, Victoria ("the Property"). The Property forms part of a larger 18-storey building which includes the Mantra on the Park apartments and a 705 space commercial car park, which do not form part of the Fund.

The office component acquired by the Fund includes part of the ground floor plus five levels of office space with a NLA of 6,528sqm. The office space is 100% fully leased to the University of Melbourne with separate leases for each floor and has a WALE of 4.9 years (at 1 March 2018). The tenant utilizes the Property for research and administrative purposes.

As a strata title, the Property has access to common facilities at the building and pays a portion of the strata costs. The Property recently underwent an extensive refurbishment in 2017 as part of the new lease agreements with the University of Melbourne.

The Property is located in a mixed use commercial and residential precinct in the north east of the Melbourne CBD on the corner of Exhibition and La Trobe Streets. The Property is close to transport, theatres, restaurants and retail facilities. The Property provides great natural light and has uninterrupted views of the world heritage listed Carlton Gardens and the Royal Exhibition Building. The region is experiencing growth and diagonally opposite the Property is a new development for a 500 room Shangri-La luxury hotel tower plus a second tower for 300 luxury apartments, expected to be completed in 2022.

Figure 6: 333 Exhibition St, Melbourne, Victoria

Source: Google Images 2018

Valuation of the property

An independent valuation was conducted by Knight Frank Valuations, a well-regarded real estate agency, with a valuation of $40.0M as at 1 February 2018. The independent valuation makes several assumptions regarding market rent, tenant incentives, re-letting and other factors based on available market evidence. The main assumptions below have been adopted in the valuation model. Placer Property intends to undertake a revaluation of the Property every 12 months.

Figure 7: Property summary

333 Exhibition Street, Melbourne, VIC	
Title	Mixed use strata title
Construction Date	1988
Ownership	100%
Site Area	4,069 sqm
Net Lettable Area	6,528 sqm
Major Tenant	University of Melbourne – 100%
Weighted Average Lease Expiry (WALE)	4.9 years (separate lease over each floor with 4-year option at expiry)
Occupancy	100%
Initial net passing income	$2.48M
Net market income (fully leased)	$2.48M
Purchase price	$38.4M
Valuation (DCF)	$40.0M
Passing initial yield	6.39%
Cap rate	6.25%
Valuer	Knight Frank Valuations
Discount rate	7.00%
Value/sqm	$6,127 per sqm
Valuer's unleveraged 10-year IRR	7.06%

Source: Placer Property, Knight Frank, Core Property

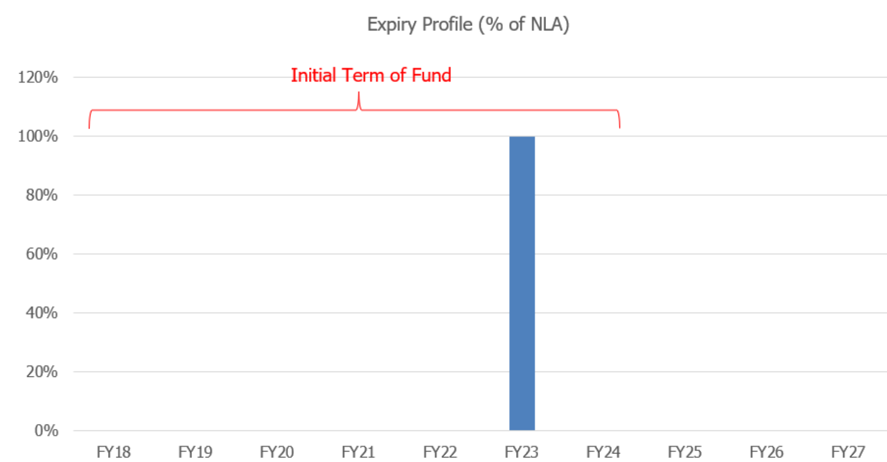
Leases, tenants and income

Key points on the tenancy profile are:

- The Property is 100% occupied, with each floor under separate lease agreements with the University of Melbourne. The lease agreements are for six years each, with a 4-year option.
- A Rental Guarantee of $2.5M has been provided through the KordaMentha Investments (Exhibition Street) Trust. The effect of the Rental Guarantee is to offset the effect of rent reductions agreed by the previous owner under the existing leases. The rental guarantee effectively tops up the rent over the first three years of the leases.
- The Property includes an interest in two Owners Corporations (OC) given the strata titled nature of the property. The Fund holds a 16.4% entitlement and voting rights in OC1 which relates to common areas, insurance and some plant and equipment that is shared with the apartment and car park owners. The Fund also owns 100% of the OC2 entitlement relating to the office area. The proportionate expenses of OC1 and all of OC2 are included in the Financial forecasts for the Fund.
- The lease agreement provides for fixed rent increases of 3.65% p.a. on each anniversary date of the lease commencement.
- The WALE across for the Property is 4.9 years (by income).

The following figure is a summary of the lease expiry profile:

Figure 8: Lease expiry (by NLA) – year to 30 June



Source: Core Property

Figure 9: Lease expiry (by Income)

Level	Tenant	Property Type	NLA (sqm)	Lease Commence	Lease Expiry	Options	Rent Review
Ground	The University of Melbourne	Office	525	1 Feb 2017	1 Feb 2023	4 years	3.65% p.a fixed increase on anniversary date of lease commencement
1	The University of Melbourne	Office	1,204	1 Feb 2017	1 Feb 2023		
2	The University of Melbourne	Office	1,201	1 Mar 2017	1 Mar 2023		
3	The University of Melbourne	Office	1,200	13 Dec 2016	13 Dec 2022		
4	The University of Melbourne	Office	1,202	15 Jan 2017	15 Jan 2023		
5	The University of Melbourne	Office	1,196	15 Jan 2017	15 Jan 2023		

Source: Knight Frank, Core Property

Capex

The Manager has forecasted around $3.8M in capital expenditure (capex) over the initial term of the Fund, which is in line with capex assumptions undertaken by the technical due diligence report and adopted by Knight Frank. The capex provision includes general maintenance and tenant incentives to be paid at the time of renewing leases. Overall, over the term of the Fund, the capex amounts to 9.7% of the initial property valuation.

The majority of the capex is funded through debt resulting in the LVR increasing slightly to 49%. Core Property estimates the LVR will remain in the range 47% - 49%, below the bank LVR covenant of 60% (55% after 31 October 2020). Core Property has adopted the Manager's capex assumptions on the basis that they were based on independent technical reports. The inherent assumptions here is that the capital expenditure is likely to improve the value of the building. While this has been the case in recent years, Core Property reminds investors that this may not be the case in adverse market conditions.

Market Sales Evidence

The figure below shows the comparable sales transactions for similar sized and quality assets, the sales below demonstrated large modern commercial assets found from other regional and metropolitan locations. The comparable sales transactions provided by the valuer suggests the Property is favourably priced on a price per sqm basis.

Figure 10: Recent sales evidence – Commercial office buildings

Property Address	Sale Price	Sale Date	Initial Yield	IRR	Price per sqm (NLA)	WALE
301 Flinders Lane, Melbourne	$34.2M	Mar-17	3.48%	3.97%	$7,372	3.7 yrs
Levels 1-8, 28 Elizabeth St, Melbourne (strata)	$12.8M	Mar-17	5.50%	6.62%	$7,001	5.8 yrs
533 Little Lonsdale St, Melbourne	$35.3M	Apr-16	5.81%	7.07%	$5,356	2.8 yrs
15-31 Pelham St, Carlton (strata)	$37.1M	Oct-16	5.50%	6.21%	$6,175	4.4 yrs
55 King St, Melbourne	$78.0M	Feb-16	5.87%	6.98%	$6,372	3.5 yrs
333 Exhibition St, Melbourne (strata)	**$38.4M**	**Dec-17**	**6.39%**	**7.06%**	**$6,127**	**4.9 yrs**

Note 1: Price per sqm of $6,127 is based on valuation of $40.0M for NLA of 6,528sqm.
Source: Knight Frank

Market Rental Evidence

The figure below shows details of comparable office lease deals as provided by the independent valuer. The valuer considers the net face market rent of $380 per sqm at the Property to sit comfortably in line with market parity for the fully refurbished floors.

Figure 11: Recent comparable leasing deals

Property	Net face rent	Details	Comments	Comparison to 333 Exhibition St
8 Exhibition St, Melbourne	$530 per sqm	Lower 3 floors		Superior property
8 Exhibition St, Melbourne	$535 - $635 per sqm	Mid-high floors		Superior property
535 Elizabeth St	~$400 per sqm	~3,000sqm	Leased to Melbourne University	A fringe CBD location
50 Franklin St	$420 per sqm	11,500sqm	Leased to Department of Justice and Regulation, and the Carlton Justice Service Centre	Late 2017 lease
150 Lonsdale St	$425 per sqm	Level 26 (890sqm)	Leased to Johnstaff	Superior location, superior refurbished A-grade tower
150 Lonsdale St	$430 per sqm	Level 21 (1,127sqm)	Leased to Steadfast	Superior location, superior refurbished A-grade tower
215 Spring St	$385 per sqm	Level 4 (1,732sqm)	Leased to Nokia, 3 year lease from 1 Jan 2017.	Superior refurbished A-grade tower
1 Nicholson St	$360 per sqm	Levels 6,78 (2,750sqm)	Leased to Ixom from April 2017	Comparable property, A grade office on edge of CBD
108 Lonsdale St	$400 per sqm	Whole building	Leased to Cambridge International for 10 years commencing April 2017	B grade, comparable building in a superior location
333 Exhibition St,	**$380 per sqm**	**GF, Levels 1-5**	**University of Melbourne**	

Source: Knight Frank, Core Property

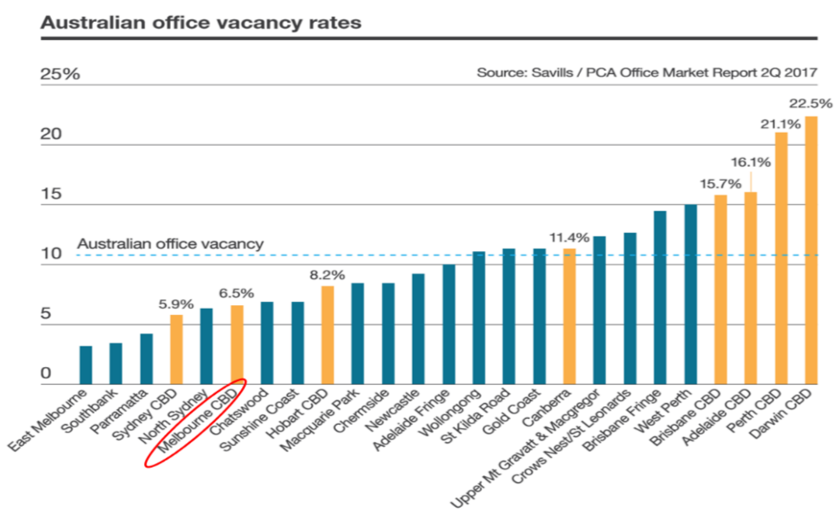
The Melbourne CBD Office Market

Victoria leads the nation for population growth, with 144,000 new residents (+2.3%) in the 12 months to June 2017, well above the 1.6% national average growth rate. Further, Greater Melbourne's population grew by 964,556 residents, 25.6%, between 2006 and 2016.

The Melbourne CBD office market has experienced strong demand from large tenants relocating form the suburbs to the CBD, with demand outstripping supply. The other theme playing out is tenants moving into higher quality office space. At the same time, an increase in residential development has reduced the available space as low grade properties are earmarked for development. This includes 98,000sqm of space on St Kilda Road being purchased for residential development, with tenants indicating a desire to remain on St Kilda Road or move to B-grade CBD spaces.

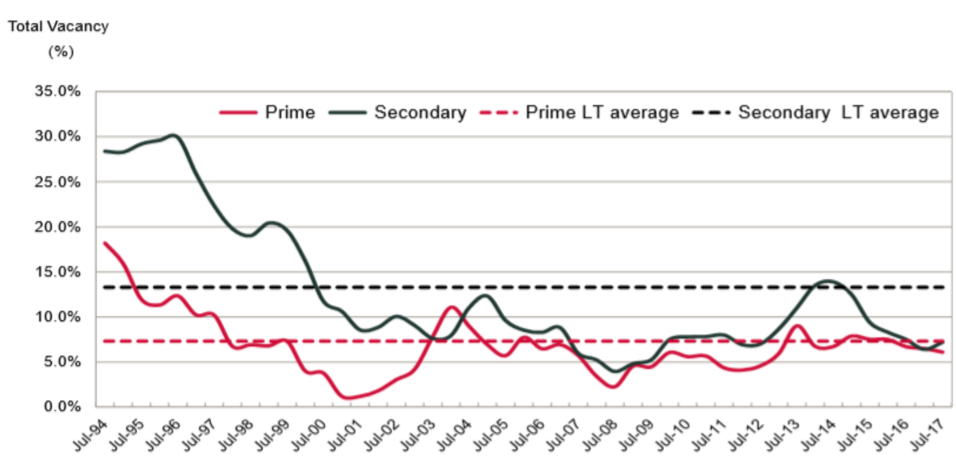
Vacancy rates have contracted in the last few years due to stock withdrawals with Melbourne CBD vacancy rates currently at 6.5%, with Sydney CBD at 5.9% and other capital cities at much higher levels. Over the next two years vacancy rates are expected to fall to around 5% as stock withdrawals continue to impact the market. Thereafter, vacancy levels are expected to return to an equilibrium level of around 7-8%.

Figure 12: Australian office vacancy rates



Source: Savills/PCA

Figure 13: Melbourne CBD vacancy



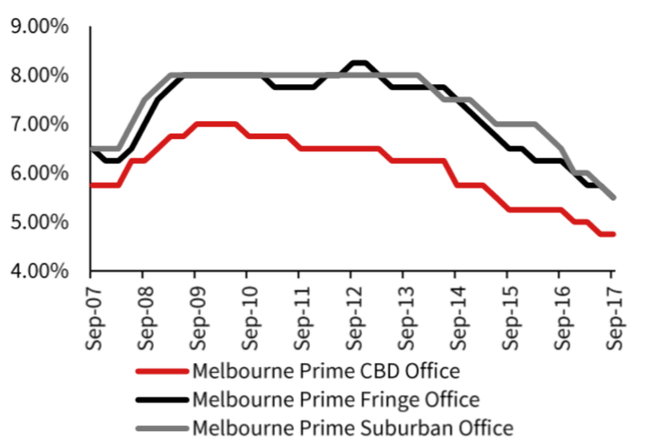
Source: Knight Frank

Melbourne CBD Office yields

As the chart below demonstrates, the yield compression in the Melbourne CBD office market has resulted in significant increases in the value of commercial properties. Demand from investors, both within Australia and large offshore investors has resulted in strong competition for office assets in recent years. Most surveys conducted on behalf of institutional investors point to continuing demand for well-located office assets and that Australia remains a preferred destination for owning quality real estate. The one big factor that is likely to temper demand is the threat of rising bond yields globally and the negative impact this may have on property valuations.

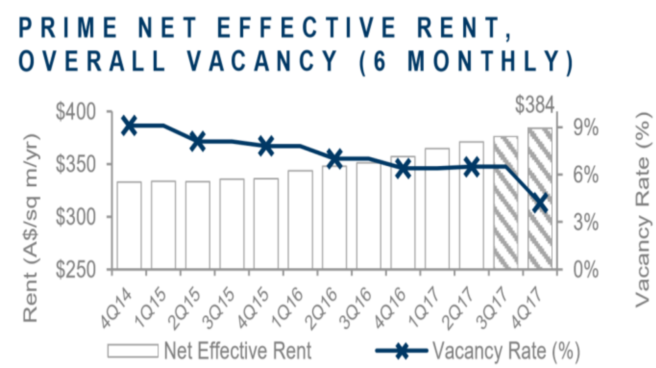
Melbourne CBD yields are currently in the 4.75% - 5.50% range for Prime grade properties and 5.25% - 6.25% for Secondary properties. Prime net effective rents are currently around $384 per sqm, with incentives around 30%.

Figure 14: Melbourne CBD office yields



Source: JLL

Figure 15: Melbourne CBD net effective rents



Source: PCA, Cushman & Wakefield

Financial Analysis

Core Property has undertaken a financial forecast of the Fund, based on the Manager's assumptions. Our key observations are:

- Initial distribution of 6.5% p.a. (annualised), for FY18 and FY19, estimated to increase to 7.0% p.a. at the end of the initial term of the Fund.
- Assumes the Property remains fully leased for term of the Fund at existing lease terms and conditions. This includes the rental guarantee provided by KordaMentha Investments (Exhibition Street) Trust for three years to offset incentives given to the tenant at commencement of the lease. Core Property notes that the cash for the rental guarantee is already held by the Custodian.

A summary of the Manager's forecasts from the PDS is presented in the table below:

Figure 16: Profit & Loss Forecast

Profit & Loss - Forecast $M	FY18 (1 March – 30 June 2018)	FY19
Net Property Income	**0.9**	**2.6**
Property & Fund Costs	-0.1	-0.3
Net Finance Costs & Amortisation of Loan Costs	-0.3	-0.9
Funds from operations	**0.5**	**1.5**
Cash distribution	0.5	1.5
Cash distribution per unit (cents)	2.17	6.50
Annualised distribution yield	**6.5%**	**6.5%**

Source: Placer Property/ Core Property

Balance sheet

The initial LVR of the Fund is estimated to be 47% and excludes the capex facility which will be drawn down over the term of the Fund. Including the capex facility would result in an LVR of around 49%. Of note is the NTA at $0.93 per unit which includes a revaluation gain since the asset was acquired.

Figure 17: Pro Forma Balance Sheet

Balance Sheet – Forecast $M	FY18
Cash	0.8
Property value	40.0
Other assets	2.5
Total Assets	**43.2**
Interest-bearing debt	18.9
Debt establishment costs/ other liabilities	2.5
Total Liabilities	**21.3**
Net Assets	**21.9**
Paid-up capital	23.5
Equity issue costs	(0.9)
Retained earnings	(0.7)
Total equity	**21.9**
NTA per unit	**$0.93**
Debt/ Total assets	**43.6%**
Debt/ Property Valuation	**47.1%**

Source: Placer Property, Core Property

Yield Analysis

A notable feature of the Manager's forecasts is that the distribution yield to investors is comparable to the underlying property yield. As Figure 16 below highlights, leverage (specifically, the positive spread between the asset yield and debt costs) negates the effects of one-off upfront and ongoing management cost. The overall impact of leverage is calculated to improve the first full year returns of the Property to 6.5%, compared to a return of 5.5% if the Property was unleveraged.

Investors should note that while leverage increases investor returns when the asset yield exceeds interest rates, it reduces returns when this spread is negative.

Figure 18: Effect of gearing on investor yield

	Yield (%)	Comments
Initial property yield	**6.3%**	Passing yield
Ongoing MER	-0.9%	Management expense ratio
Unlevered asset yield	**5.5%**	
Effect of upfront costs	-1.3%	Acquisition Fee and Upfront costs
Unlevered investor yield	**4.2%**	Pre-gearing return
Effect of gearing	2.3%	+ve spread between asset yield and debt cost
Post-gearing investor yield	**6.5%**	Available for distribution

Source: Core Property

NTA Analysis

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Fund. In this case, the starting NTA is $0.93 per unit, with most of the dilution coming from stamp duty costs.

Figure 19: Initial NTA

Amount per unit	$ per unit
Issue Price	$1.00
Less:	
Stamp duty	-$0.09
Debt & Fund Establishment costs	-$0.07
Other	-$0.01
Add back:	
Acquisition (premium)/ discount to valuation	$0.07
Working capital & capitalised costs	$0.03
NTA per unit (with capitalised costs)	**$0.93**

Source: Core Property

Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

The table below summarises our expected IRRs.

Based on an assessment of the RE's forecasts, Core Property expects a 6-year pre-tax equity IRR of approximately 9.1% assuming capitalisation rates increase to 6.60% (from 6.25% at acquisition) and the cost of debt in the final 18 months of the Fund increases to 4.97%. Based on a +/-50bps movement in capitalisation rates and a +/-50bps movement in the cost of debt in the final 18 months, the estimated IRR is between 7.3% - 10.8%.

Core Property notes the interest rate on the debt facility has been hedged for five years until December 2022, with a step up in the hedged interest rate during the initial five years of the Fund. Due to this hedging being in place, the performance of the Fund is less sensitive to interest rate movements and is more dependent on the terminal capitalisation rate of the Property.

Our sensitivity analysis assumes the cost of debt steps up in line with the forward yield curve in the final 18 months of the Fund (December 2022 to June 2024).

Figure 20: Pre-tax, 6-year IRR (after fees) sensitivity analysis

Terminal cap rate	Cost of debt in final 18 months of Fund				
	3.97%	4.47%	4.97%	5.47%	5.97%
6.10%	10.9%	10.8%	10.7%	10.7%	10.6%
6.35%	10.2%	10.1%	10.0%	9.9%	9.8%
6.6% (base)	9.3%	9.2%	**9.1%**	9.0%	8.9%
6.85%	8.5%	8.3%	8.2%	8.1%	8.0%
7.10%	7.6%	7.5%	7.4%	7.3%	7.2%

Source: Core Property

Management & Corporate Governance

Background of the Responsible Entity & Manager

Placer Property Limited ("Placer Property", "Responsible Entity", "RE") was established in July 2013 with a primary objective to facilitate quality commercial property investment opportunities for investors seeking regular and reliable income. Placer Property is the Responsible Entity of two other property funds, the NewActon East Property Fund (established 2014) and The Stables Property Fund (established 2016).

In August 2017, Placer Property was acquired by KordaMentha and now forms part of the Investment Division of its Real Estate Group. KordaMentha is a leading investment and advisory firm, with over 380 staff across Australia, New Zealand and South East Asia. Since 2007, KordaMentha Real Estate has advised or transacted on over $14.0B of property and has 38 real estate staff.

Placer Property Management Pty Ltd is the Manager of the Fund, is a related party of Placer Property. and is part of the KordaMentha Group. The Board of both the RE and the Manager consist of two independent non-executive directors and three executive directors. Core Property has reviewed the composition of the Board and senior management team and consider it has the relevant skills and experience to operate the Fund successfully.

Figure 21: The Board of the Responsible Entity & Manager

Name & Role	Experience
James Walsh Non-Executive Chairman	James has over 28 years' experience as a company director with considerable experience across a range of industrial and service businesses, particularly in strategy, mergers and acquisitions, risk management, funding and managing growth. In February 2018 James was appointed to the Board of Placer and is a member of the Audit, Risk Management & Compliance Committee. James holds a Bachelor of Commerce from Deakin University, a Master of Business Administration from Melbourne Business School and is a graduate from the Australian Institute of Company Directors. James is a Fellow of the Institute of Chartered Accountants in Australia.
Janette Kendall Non-Executive Director	Janette has more than 23 years' board experience across public, private and not-for-profit organisations, spanning a range of industries including marketing and technology, advertising, digital media, supermarkets and the arts. Janette was appointed to the Board of Placer in March 2018. Janette is currently a Non-Executive Director of Nine Entertainment Co Holdings Ltd, Vicinity Centres, Costa Group, Wellcom Worldwide and Melbourne Theatre Company. Janette holds a Bachelor of Business - Marketing and is a Fellow of the Australian Institute of Company Directors.
Tom Davis Executive Director	Tom is a Partner with KordaMentha Real Estate and has been with KordaMentha for 12 years. Tom has worked on strategic portfolio reviews, asset divestment, investment analysis and management as well as operational and turnaround management. Tom was appointed a Director of the RE in August 2017.
David Omond Joint Managing Director	David has more than 25 years' experience in commercial property management, development, funds management and corporate finance. He has held numeroud senior management positions at Heine Management, MCS Property and Centro Properties Group. David is a co-founder of Placer Property and was appointed Joint Managing Director in September 2013. David holds a Bachelor of Business (Property) from the University of South Australia.
Mario Papaleo Joint Managing Director	Mario has more than 20 years' experience in direct rela estate, listed and unlisted property investment and funds management, including working as a fund manager of Centro Retail Trust, as an Analyst and Syndicate Fund Manager for Heine Management Limited, as a consultant for Jebb Holland Dimasi as well as direct property and asset management experience for McDonald's Australia Limited Store Development Group. Mario is a co-founder of Placer Property and as appointed Joint Managing Director in September 2013. He holds a Bachelor of Business (Property) from RMIT University and a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia.

Other Key Management

Name & Role	Experience
Bernadette Spiteri Head of Investment Services	Bernadette has over 25 years' experience in financial services and has held senior executive management roles in distribution, marketing, product development and investor relations. She has worked with Bankers Trust Australia, MCS Property, Centro Properties Group, Portfolio Partners Limited and Orchard Funds Limited before joining Placer Property in January 2015. Bernadette is an affiliate member of the Financial Services Institute of Australasia (FINSIA).
Mary Barnett Chief Financial Officer	Mary has 20 years' experience in Australia and Singapore in managing bid pricing, consolidations, forecasts, budgets, tax and reporting obligations. She has worked with KordaMentha for 9 years nad is a Director. Prior to this Mary was the Financial Controller of the Real Estate Services division at United Group. Mary was appointed Chief Financial Officer in December 2017. She holds a Bachelor of Science Education, Mathematics from the University of Melbourne, a Masters in Practising Accounting from Monash University and is a Chartered Accountant.

Source: Placer Property

Compliance and Governance

The Fund's compliance committee comprises three independent members, with Chairperson Nick Stretch (who is a partner of Denton's law firm), and independent directors Peter Flynn (Director at Intercommercial Property Group) and James Walsh.

ASIC Regulatory Guide 46 "Unlisted property schemes: Improving disclosure for retail investors" and Regulatory Guide 198 "Unlisted disclosing entities: continuous disclosure obligations" describe ASIC's preferred benchmarks and principles.

Core Property has reviewed the PDS in reference to the six benchmarks and eight disclosure principles recommended by RG46. The PDS adheres to the ASIC guidelines.

Related Party Transactions

The RE has a "Related Party and Conflict of Interest Policy" which addresses disclosure of conflicts of interests to unitholders and, if required, steps to manage the conflict in an appropriate manner.

The RE has advised in the PDS that a related party transaction was undertaken to fund the initial acquisition of the Property by the Fund. This involved KordaMentha Investment (Exhibition Street) Trust acquiring the $16.9M of "Acquisition Units" in the Fund, with the balance of the acquisition price funded by debt.

The KordaMentha Investment (Exhibition Street) Trust and its trustee are associated entities of the RE and the Manager. As such, Acquisition Units will be sold down progressively to new investors (at the higher of $1.00 or prevailing NAV per unit) under the terms of the Offer. The KordaMentha Investment (Exhibition Street) Trust has indicated that it may hold up to 20% of units in the Fund following the progressive sell down of its Acquisition Units.

Past Performance

Placer Property was established in July 2013 and has launched two other unlisted property funds:

- The NewAction East Property Fund was launched in September 2014 and has delivered distributions of 7.75% - 8.7% p.a. since inception. The unit price has increased to $1.06 per unit, from $1.00 per unit at inception.
- The Stables Property Property Fund was launched in May 2016 and has delivered distributions of 7.6% p.a. since inception. In the 13 months to June 2017 the NTA of the Fund has increased to $0.99 per unit, from $0.95 per unit at inception.

Investors should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters, and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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