

INVESTEC AUSTRALIA PROPERTY FUND – Acquisition of new properties

IAP 201412040004A

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INVESTEC AUSTRALIA PROPERTY FUND

Incorporated and registered in Australia in terms of ASIC (ARSN 162 067 736)

Registered in terms of the Collective Investment Schemes Control Act No.45 of 2003

Operated by Investec Property Limited (ACN 071 514 246; AFSL 290 909) ("Responsible Entity")

Share code: IAP

ISIN: AU60INL00018

("IAPF" or the "Fund")

ACQUISITION OF NEW PROPERTIES

1. ACQUISITION OF NEW PROPERTIES

1.1. Acquisition

Unitholders are advised that the Fund has entered into the following agreements:

(a) a contract for sale with Wetherill Park Holdings Pty Limited (ACN 109 150 594) to acquire the property located at 165 Newton Road, Wetherill Park NSW 2164 ("Wetherill Park Property"); and

(b) a contract for sale with Hunter River Holdings Pty Limited (ACN 115 411 491) to acquire the property located at 24 Spit Island Close, Newcastle NSW 2304 ("Newcastle Property"),

together, the "Acquisition".

The acquisitions of the Wetherill Park Property and the Newcastle Property are inter-conditional.

The effective date of the Acquisition is the settlement date under the respective contracts for sale, which is scheduled for 10 December 2014.

There are no conditions precedent to the Acquisition.

1.2. Purchase consideration

The aggregate purchase consideration is AUD 26,850,000 which represents an annualised property yield of 7.92% (7.48% post all transaction costs) based on the net passing income as at the date of the first rental payment following the Acquisition. The purchase consideration is allocated as follows:

	Wetherill Park Property	Newcastle Property
Purchase consideration (AUD)	18,500,000	8,350,000
Transaction costs (AUD)	1,090,184	492,056
Total consideration (AUD)	19,590,184	8,842,056
Purchase yield (pre-transaction costs)	7.86%	8.04%
Purchase yield (post-transaction costs)	7.43%	7.59%

The aggregate purchase consideration and all transaction costs will be funded through the existing debt facility with Westpac Banking Corporation.

1.3. Rationale for the Acquisition

The Acquisition is consistent with the Fund's strategy of investing in well located, high quality assets. The Responsible Entity is actively seeking opportunities to grow and diversify the Fund's asset base, enhance unitholder value and contribute to sustainable income growth. The Acquisition represents an attractive investment for the Fund as:

- (a) it is accretive based on the positive spread between the property yields and funding costs;
- (b) the income is underpinned by leases to Horan Steel Holdings Pty Limited, a privately owned steel distribution company that focuses on high margin, just in time business servicing the New South Wales market, and which was founded in 1921;
- (c) all outgoings are fully recoverable under the leases;
- (d) the average contracted annual growth is approximately 3.00% in respect of the Wetherill Park Property and a minimum of 3.75% in respect of the Newcastle Property;
- (e) the Wetherill Park Property is located in one of Sydney's most established industrial areas 34 kilometers from the Sydney CBD and benefits from a lease expiring in January 2026 with one option for a further five years;
- (f) the Newcastle Property is strategically located 5 kilometers from the Port of Newcastle and 10 kilometers from the Newcastle CBD and benefits from a lease expiring in January 2021 with one option for a further ten years;
- (g) the weighted average lease expiry is 9.6 years; and
- (h) there are depreciation allowances which will provide a tax shield on distributions payable to unitholders.

1.4. Specific information relating to the properties

Details relating to the Wetherill Park Property are set out below:

Registered description	Lot 54 in Deposited Plan 224417
Title	Freehold
Sector	Industrial (warehouse)
Location	34 km west of the Sydney CBD
Year built	1995
Site area	20,230m ²
GLA	12,529m ²
Car parks	36
Rent per m ²	AUD 116 per annum (net of outgoings)
Vacancy	0%

The Property has been valued at AUD 18,500,000 as at 19 November 2014 by CBRE Valuations Pty Limited (ACN 008 912 641). The valuer, Robert Anderson, is an independent valuer and is a Certified Practising Valuer (Registered Valuer No. 6725).

Details relating to the Newcastle Property are set out below:

Registered description	Lot 39 in Deposited Plan 270249
Title	Freehold
Sector	Industrial (warehouse)
Location	10 km from the Newcastle CBD and 5 km from the Port of Newcastle
Year built	2006
Site area	8,871 m ²
GLA	5,257m ²

Car parks	29
Rent per m2	AUD 128 per annum (net of outgoings)
Vacancy	0%

The Property has been valued at AUD 8,350,000 as at 18 November 2014 by Newcastle Corporate Real Estate Services Pty Limited (ACN 962 509 406), trading as Knight Frank Newcastle. The valuer, Matt Shaw, is an independent valuer and is a Certified Practising Valuer (Registered Valuer No. 032440).

1.5. Forecast information on the Acquisition

The forecasts have been prepared with effect from 1 December 2014 and include forecast results for the period ending 31 March 2015 and the year ending 31 March 2016.

The forecasts, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the board of directors of the Responsible Entity. The forecasts have not been reviewed or reported on by the independent reporting accountants.

The forecasts presented in the table below have been prepared in accordance with the Fund's accounting policies and in compliance with IFRS.

	Forecast 4 months ending 31 March 2015 AUD'000	Forecast 12 months ending 31 March 2016 AUD'000
Revenue, including straight line adjustment	890	2,676
Total property expenses	(85)	(260)
Net property income	805	2,416
Fund management fees	(54)	(161)
Fund operating costs	(18)	(54)
Net operating income before finance charges	733	2,201
Finance costs	(444)	(1,333)
Net profit attributable to equity holders	289	868
Less: straight line revenue adjustment	(99)	(283)
Distributable income pre-withholding tax	190	585
Distributable income post-withholding tax	190	571

Notes:

- All revenue for the reporting periods shown is contracted and is based on the leases in place on settlement.
- The lease at the Wetherill Park Property has an irregular escalation profile, with no escalations until 1 July 2017 when it escalates by 1.40%, followed on 1 July 2018 by 10.10% and thereafter escalating by the greater of CPI and 3.00% annually. Whilst this affects growth in the first two years of the lease, the average escalations over the life of the lease are in excess of 3.00%. The lease at the Newcastle Property has minimum annual escalations of 3.75%. After the Acquisition the portfolio will have average annual escalations of approximately 3.50%.
- Distributions payable to unitholders attributable to the Acquisition are shielded from withholding tax in Australia as a result of interest expense on debt funding and depreciation allowances on the properties.
- Material expenditure items relate to the fund management fees (approximately 34% of total expenses).
- No material expenditure items have been increased in the forecast period ending 31 March 2016 by more than 15% over the previous financial period.
- The finance costs reflect an all in cost of funds of 4.7%.

1.6. Categorisation

The Acquisition is a category 2 transaction in terms of the JSE Listings Requirements and accordingly does not require approval by unitholders.

Johannesburg

4 December 2014

Investment Bank and Sponsor

Investec Bank Limited

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