

## **INVESTEC AUSTRALIA PROPERTY FUND**

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

Registered as a foreign collective investment scheme in terms of the Collective Investment Schemes Control Act No.45 of 2003 and operated by Investec Property Limited (ACN 071 514 246; AFSL 290 909) ("**Responsible Entity**")

Share code: IAP

ISIN: AU60INL00018

(the "**Fund**")

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## **ACQUISITION OF NEW PROPERTY**

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### **1. ACQUISITION OF NEW PROPERTY**

#### **1.1. Acquisition**

Unitholders are advised that the Fund has entered into and settled a contract for sale with Long Service Leave Authority (ABN 25 517 393 480) ("**Vendor**") to acquire the property located at 186 Reed Street, Greenway ACT 2900 ("**Property**") (the "**Acquisition**").

The effective date of the Acquisition is the settlement date under the contract for sale, which occurred simultaneously with signing the contract for sale on 15 May 2014.

There were no conditions precedent to the Acquisition.

#### **1.2. Purchase consideration**

The purchase consideration is AUD 25,805,000 which represents an annualised property yield of 7.84% (7.40% post all transaction costs) based on the net passing income at the date of the Acquisition.

The Fund is required to pay stamp duty of AUD 1,419,275 on the Acquisition.

The purchase consideration and all costs have been funded through the existing debt facility with Westpac Banking Corporation. The Fund will be geared to 26.8% following the Acquisition. The Responsible Entity has hedged 100% of the debt at an all in rate of 4.70% consistent with the Fund's stated hedging policy.

#### **1.3. Rationale for the Acquisition**

The Acquisition is consistent with the Fund's strategy of investing in high quality office assets that are well located in major metropolitan areas. 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 yield and funding costs;
- (b) the income is underpinned by a lease to The Commonwealth of Australia with contracted annual growth of 3.50%;
- (c) the lease expires in February 2023 with two further four year options;
- (d) significant capital improvements have recently been completed to the Property; and
- (e) there is substantial depreciation which will provide a tax shield on distributions payable to unitholders.

The Property is an A-grade four level office building with 158 car parks located in Tuggeranong Town Centre in Australia's national capital city, Canberra. The Property is 100% leased to The Commonwealth of Australia (Department of Human Services) on a 10 year lease expiring in February 2023. There are two further four year options and the annual contracted growth is 3.50%. The Property has recently

undergone a significant capital improvements program with approximately AUD 7,000,000 expended by the Vendor and a further AUD 10,000,000 contributed by the tenant towards fit out.

#### 1.4. **Specific information relating to the Property**

Details relating to the Property are set out below:

Registered description	Block 4 Section 6 Division of Greenway on Deposited Plan 7320 (Volume 1117 Folio 93)
Title	99 year Crown leasehold expiring in 2088
Location	Tuggeranong Town Centre, 25 km from the Canberra CBD
NLA	5,403m <sup>2</sup>
Car parks	158
Weighted average office rent per m <sup>2</sup>	AUD 414 per annum (gross including outgoings)
Vacancy	0%

The Property has been valued at AUD 25,925,000 as at 30 April 2014 by Savills Valuations Pty Ltd (ABN 73 151 048 056). The valuer, Philip Harding, is an independent valuer and is a certified practicing valuer, a certified property practitioner, a fellow of the Australian Property Institute and a registered valuer in Queensland (#2257) and New South Wales (#VAL024036).

#### 1.5. **Pro forma financial effects of the Acquisition**

The *pro forma* financial effects of the Acquisition on the Fund's net assets and net tangible assets per unit, based on the *pro forma* statement of financial position as disclosed in the pre-listing statement dated 25 September 2013, are not significant and have not been presented.

#### 1.6. **Forecast information on the Property**

The forecasts have been prepared with effect from 1 June 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 10 months ending 31 March 2015 AUD'000	Forecast 12 months ending 31 March 2016 AUD'000
Revenue, including straight line adjustment	2,264	2,717
Total property expenses	(325)	(400)
<b>Net property income</b>	<b>1,939</b>	<b>2,317</b>
Fund management fees	(129)	(155)
Fund operating costs	(86)	(103)
<b>Net operating income before finance charges</b>	<b>1,724</b>	<b>2,059</b>
Finance costs	(1,016)	(1,219)
<b>Net profit attributable to equity holders</b>	<b>708</b>	<b>840</b>
Less: straight line revenue adjustment	(255)	(224)
<b>Distributable income pre-withholding tax</b>	<b>453</b>	<b>616</b>
<b>Distributable income post-withholding tax</b>	<b>453</b>	<b>616</b>

**Notes:**

1. All revenue for the reporting periods shown is contracted and is based on the lease in place on settlement.
2. The annual escalation embedded in the lease is 3.50%.
3. Distributions payable to unitholders attributable to the Acquisition are shielded from additional withholding tax in Australia as a result of interest expense on debt funding and depreciation allowances on the Acquisition.

**1.7. Categorisation**

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

Johannesburg  
15 May 2014

Investment Bank and Sponsor  
Investec Corporate Finance