

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**")

NEW ACQUISITIONS

1. Introduction

The Fund is pleased to advise unitholders that it has entered into the following arrangements:

- a unit sale agreement with 151 Property Pty Limited (**North Ryde Vendor**) to acquire all of the issued units in the Lot 19 Trust (**Lot 19 Trust**), which owns the land and office building located at 2 Richardson Place, North Ryde NSW (**North Ryde Property**); and
- a unit sale agreement with Australiagen Office Portfolio Mid TC Pty Limited as trustee for the Australiagen Office Portfolio Mid Trust (**Frenchs Forest Vendor**) to acquire all of the issued units in the 20-24 Rodborough Road Trust (**Rodborough Road Trust**), which owns the land and office buildings located at 20 and 24 Rodborough Road, Frenchs Forest NSW (**Frenchs Forest Property**).

Lot 19 Trust

The purchase consideration for the Lot 19 Trust, the only asset of which is the North Ryde Property, is AUD 85 million (excluding transaction costs). The purchase consideration equates to an initial passing yield of 7.0% (pre transaction costs).

The North Ryde Property is a four level, high quality, A-grade office building located 10 kms north-west of the Sydney CBD in the established North Ryde commercial precinct. The North Ryde Property was built in 2004 and comprises 15,055m² of office space, 150m² of ground floor retail space and 492 undercover and on-grade car parks. The North Ryde Property achieves a 4.5 star NABERS energy rating, with a potential for an increased rating due to recent lighting and car parking upgrades.

The North Ryde Property benefits from immediate access to the M2 motorway, which in turn provides direct access to the Sydney CBD. It is located approximately 750 metres from the North Ryde train station which is currently undergoing a major upgrade as part of the Sydney Metro Rail Link project, which is Australia's largest public infrastructure project.

Rodborough Road Trust

The purchase consideration for the Rodborough Road Trust, the only asset of which is the Frenchs Forest Property, is AUD 75 million (excluding transaction costs). The purchase consideration equates to an initial passing yield of 7.5% (pre transaction costs) and a fully leased yield of 8.0% (pre transaction costs).

The Frenchs Forest Property comprises two separate buildings, 20 Rodborough Road and 24 Rodborough Road. 20 Rodborough Road is a campus style office building providing 12,366m² of office space, 325m² of ground floor retail space and 453 undercover and on-grade car parks. The building has recently undergone an extensive refurbishment program costing AUD 1,300,000 which included upgrades to the lifts, refurbishment of some of the office levels, upgrades to the bathrooms and new disabled amenities. 24 Rodborough Road is a modern office and warehouse facility with two levels of office space totaling 3,219m², one level of high clearance warehouse space totaling 3,979m² and 130 undercover car parks.

The Frenchs Forest Property is located in close proximity to the new Northern Beaches Hospital, an AUD 2,000,000,000 construction project that is due for completion in 2018. The Frenchs Forest Property will benefit significantly from its close proximity to the Northern Beaches Hospital and the associated infrastructure upgrades currently being undertaken to support this project. In particular the Northern Beaches Hospital is anticipated to positively impact tenant demand within Frenchs Forest, especially from medical and health related tenants looking to locate in close proximity to the hospital and other tenants in the medical and health related sectors. The annual growth rate for professional employment in Frenchs Forest precinct is expected to

be double that of greater Sydney over the next 20 years as a direct result of its proximity to the Northern Beaches Hospital.

2. Funding of the acquisitions

The Fund has previously indicated that its target gearing range is 35% - 40%, with current gearing sitting at 39%. As such, in order to fund the acquisitions the Fund will be:

- undertaking a renounceable rights offer of ZAR 1,530,000,000, equating to approximately AUD 150,000,000, to existing unitholders in February 2017 (**Rights Offer**); and
- making a draw down under the existing syndicated debt facility with Westpac and ANZ (**Facility**).

Under the Rights Offer, 113,333,334 new units will be offered in the ratio of 34.59683 new units for every 100 existing units held on the record date. The new units will be issued cum the entitlement to the final distribution for the 6 months ending 31 March 2017. The Rights Offer issue price of ZAR 13.50 equates to a clean price of ZAR 13.12 per unit, which reflects the accrued distribution for the period from 1 October 2016 up to the date immediately prior to the date on which the new units are issued, which is currently anticipated to be 26 February 2017. This equates to a forward yield of 7.6% pre withholding tax on the theoretical ex-rights price and a discount of 3.4% to the relevant 30 day weighted average clean price of R13.58, calculated as at the date of approval of the acquisitions and the associated Rights Offer by the board of the Responsible Entity (being 15 December 2016). The Rights Offer is not conditional on a minimum subscription.

Unitholders holding approximately 29.5% of the units in issue have provided irrevocable commitments to take up their rights in terms of the Rights Offer, which amounts to approximately ZAR 452,000,000. In addition, to date the Fund has received commitments to underwrite a further ZAR 576,300,000. The cumulative effect of the irrevocable and underwriting commitments is that currently 67.2% of the Rights Offer will be taken up.

Assuming the Rights Offer is fully subscribed, the Fund will make a draw down under the Facility of approximately AUD 20,000,000 which will result in the Fund being geared to 33% post the Rights Offer. This will provide the Fund with added capacity to debt-fund pipeline acquisitions going forward and to take advantage of the low interest rate environment in Australia. If no additional new units are issued under the Rights Offer other than those the subject of the current irrevocable and underwriting commitments, the Fund will make a draw down under the Facility of approximately AUD 70,000,000 which will result in the Fund being geared to 39% post the Rights Offer.

Unitholders will be advised in due course of the salient features and timing of the Rights Offer.

3. Rationale for acquisitions

North Ryde Property

The acquisition of the North Ryde Property represents an attractive investment for the Fund for the following reasons:

- Medium term contracted income with a WALE of 4.1 years and blended rental escalations of 3.43%.
- The North Ryde Property is 100% occupied and leased to quality tenants such as Ricoh Australia, Honeywell Limited and Paynter Dixon, who collectively occupy 98% of the North Ryde Property.
- Average net rents at the North Ryde Property are AUD 319/m² which compares favorably to other metropolitan A-grade office markets in Sydney such as North Sydney (AUD 675/m²), Parramatta (AUD 525/m²), Chatswood (AUD 480/m²) and Rhodes (AUD 400/m²).
- The Fund has secured a rental guarantee without claw back from the North Ryde Vendor for AUD 1,600,000 to support vacancies in FY19 and FY 20.
- The 2004 construction of the North Ryde Property results in minimal capital expenditure requirements within the short to medium term.

- Due to progressive rezoning of previous commercial office sites to residential uses in North Ryde, new commercial development construction has averaged only 16,000m² per annum, compared to the ten year average of 39,000m² per annum. In addition, it is estimated that by 2020, 187,000m² of office stock will be permanently removed from the greater North Shore office market in Sydney, which is likely to keep vacancy rates low and place upward pressure on rents in North Ryde.
- The North Ryde market acts as a business cluster for companies in the health, education and technology sectors which are the fastest growing occupier sectors in Australia, which should result in strong future tenant demand in North Ryde.
- With significant infrastructure upgrades underway and the creation of further retail amenities, North Ryde is an improving precinct and is well positioned to outperform other Sydney metropolitan office markets.
- The North Ryde Property is located in close proximity to the North Ryde train station (which is currently being upgraded), the super-regional Macquarie Shopping Centre, Macquarie University, two major mixed use development projects including 'Lachlan's Line' which adjoins the Fund's property at 113 Wicks Road, and major road upgrades, which will increase the North Ryde Property's appeal with tenants.
- The addition of the North Ryde Property to the Fund's portfolio increases the Fund's exposure to New South Wales, which is Australia's largest and best performing economy.

Frenchs Forest Property

The acquisition of the Frenchs Forest Property represents an attractive investment for the Fund for the following reasons:

- Medium term contracted income with a WALE of 4.4 years and rental escalations of 3.25%.
- The Frenchs Forest Property is 95% occupied, providing an opportunity to enhance yield to 8.0% (pre transaction costs) if the vacant space can be let, and is leased to quality tenants including Pharmaxis, Yum! Restaurants Australia, Henkel Australia and Alexion Pharmaceuticals Australasia, who collectively occupy 76% of the Frenchs Forest Property.
- Average net office rents at the Frenchs Forest Property are AUD 262/m² which compares favorably to other metropolitan A-grade office markets in Sydney such as North Sydney (AUD 675/m²), Parramatta (AUD 525/m²), Chatswood (AUD 480/m²) and Rhodes (AUD 400/m²).
- The Fund has secured a rental guarantee without claw back from the Frenchs Forest Vendor for AUD 900,000 to support vacancies in FY 18 and FY 20.
- Due to progressive rezoning and conversions of existing commercial office space into residential or hotel developments and no new supply, there is likely to be downward pressure on vacancy rates and upward pressure on effective rental growth in the Frenchs Forest precinct.
- The Frenchs Forest Property is located in close proximity to the AUD 2,000,000,000 Northern Beaches Hospital project which is due for completion in 2018 and which will have a positive impact on tenant demand within Frenchs Forest, particularly from medical and health related tenants.
- Significant government infrastructure development is currently being undertaken to improve traffic flow and public transport options which, when completed, will increase the accessibility of the Frenchs Forest precinct for commercial occupiers.
- The addition of the Frenchs Forest Property to the Fund's portfolio increases the Fund's exposure to New South Wales, which is Australia's largest and best performing economy.

4. Valuation information

North Ryde Property

The North Ryde Property has been valued at AUD 85 million as at 1 January 2017 by Valuations Services (NSW) Pty Ltd trading as Knight Frank Valuations (ABN 83 079 862 990). The valuer, Lachlan Graham, is an independent valuer and is an Associate of the Australian Property Institute and a Certified Practising Valuer (registration no.3990).

Frenchs Forest Property

The Frenchs Forest Property has been valued at AUD 75 million as at 1 January 2017 by Valuations Services (NSW) Pty Ltd trading as Knight Frank Valuations (ABN 83 079 862 990). The valuer, Lachlan Graham, is an independent valuer and is an Associate of the Australian Property Institute and a Certified Practising Valuer (registration no.3990).

5. Forecast information on the acquisitions

The forecasts below have been prepared with effect from 1 March 2017 and include forecast results for the periods ending 31 March 2017 and 31 March 2018.

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.

Lot 19 Trust

The forecasts presented in the table below for the Lot 19 Trust relate to the North Ryde Property, being the only asset of the Lot 19 Trust, and have been prepared in accordance with the Fund's accounting policies and in compliance with IFRS.

	Forecast 1 month ending 31 March 2017 AUD'000	Forecast 12 months ending 31 March 2018 AUD'000
Revenue (including straight line revenue adjustment)	614	7,384
Total property expenses	(98)	(1,200)
Net property income	516	6,184
Fund and asset management fees	(43)	(510)
Net operating income before finance charges	473	5,674
Finance costs	(33)	(404)
Net profit attributable to equity holders	440	5,270
Less: straight line revenue adjustment	(23)	(189)
Distributable income pre-withholding tax	417	5,081
Distributable income post-withholding tax	367	4,470

Rodborough Road Trust

The forecasts presented in the table below for the Rodborough Road Trust relate to the Frenchs Forest Property, being the only asset of the Rodborough Road Trust, and have been prepared in accordance with the Fund's accounting policies and in compliance with IFRS.

	Forecast 1 month ending 31 March 2017 AUD'000	Forecast 12 months ending 31 March 2018 AUD'000
Revenue (including straight line revenue adjustment)	598	7,622
Total property expenses	(105)	(1,291)

Net property income	493	6,331
Fund and asset management fees	(38)	(450)
Net operating income before finance charges	455	5,881
Finance costs	(30)	(356)
Net profit attributable to equity holders	425	5,525
Less: straight line revenue adjustment	(31)	(233)
Distributable income pre-withholding tax	394	5,292
Distributable income post-withholding tax	335	4,498

Notes:

1. The forecasts are based on the Rights Offer being fully subscribed.
2. Distributions payable to unitholders are partially shielded by depreciation allowances.
3. Material expenditure items relate to Fund and asset management fees (approximately 30% of total expenses for the Lot 19 Trust and 26% of total expenses for the Rodborough Road Trust).
4. No material expenditure items have been increased in the forecast period ending 31 March 2018 by more than 15% over the previous financial period.
5. The finance costs assume a weighted average cost of funds of 3.80% with 75% of the cost of the Fund's debt fixed via interest rate swaps (in accordance with the Fund's interest rate hedging policy) for 5, 7, 8, 9 and 10 years.

6. Conditions precedent

The acquisitions are not related and are not conditional on each other.

Lot 19 Trust

Unless waived by the buyer under the unit sale agreement, the acquisition of the Lot 19 Trust is effectively conditional on completion of the Rights Offer in accordance with the prescribed timetable, details of which will be advised in due course. Under the unit sale agreement, the buyer will be required to undertake reasonable steps to carry out the Rights Offer in accordance with the prescribed timetable.

The effective date of the acquisition of the Lot 19 Trust is the settlement date under the unit sale agreement, being 5 business days after the buyer provides the vendor with a notice to complete, which is anticipated to be 6 March 2017.

Rodborough Road Trust

Unless waived by the buyer under the unit sale agreement, the acquisition of the Rodborough Road Trust is effectively conditional on completion of the Rights Offer in accordance with the prescribed timetable, details of which will be advised in due course. Under the unit sale agreement, the buyer will be required to undertake reasonable steps to carry out the Rights Offer in accordance with the prescribed timetable.

The effective date of the acquisition of the Rodborough Road Trust is the settlement date under the unit sale agreement, being 5 business days after the buyer provides the vendor with a notice to complete, which is anticipated to be 6 March 2017.

7. Categorisations

Lot 19 Trust

The acquisition of the Lot 19 Trust is a category 2 transaction in terms of the JSE Listings Requirements and accordingly does not require approval by unitholders.

Rodborough Road Trust

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

Johannesburg
16 January 2017

Investment Bank and Sponsor
Investec Bank Limited