

**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**")

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## ACQUISITION OF NEW PROPERTY

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### 1. Acquisition

Unitholders are advised that the Fund has entered into a contract for sale with Perpetual Corporate Trust Limited to acquire the office property located at 266 King Street, Newcastle NSW 2300 (**Property**).

The effective date of the acquisition of the Property is the settlement date under the contract for sale, which is scheduled for 28 January 2016.

The acquisition of the Property is conditional on execution of leases to the Australian Tax Office of the Commonwealth of Australia and Commonwealth Bank of Australia.

### 2. Purchase consideration

The purchase consideration is AUD 56,734,867.

The purchase consideration and all transaction costs will be funded through the existing debt facility with Westpac Banking Corporation at the prevailing margin. The Fund's gearing post the acquisition of the Property will be 44.2%.

The Fund has previously indicated that its target gearing range is 35% - 40%. As such, the Fund will be undertaking a renounceable rights offer of between AUD 40,000,000 and AUD 60,000,000 to existing unitholders in early 2016. The effect of the rights offer will be to reduce the Fund's gearing such that it sits within, or just under, the Fund's target gearing range and will provide some additional capacity for future acquisitions.

Unitholders will be advised in due course of the salient features and timing of the proposed rights offer as well as the salient dates and documentation relating to it.

### 3. Rationale for acquisition of the Property

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

- (a) The Property is located in the heart of the Newcastle CBD, adjacent to the new State Law Court and in close proximity to The University of Newcastle city campus due for completion in early 2016.
- (b) Newcastle is Australia's seventh largest city, the second largest city in New South Wales and has a population of approximately 400,000 people. The Newcastle CBD is currently experiencing a major revitalisation with several large scale developments currently being undertaken, including the AUD 120 million State Government funded Newcastle Urban Renewal Strategy, the AUD 300 million State Government funded Newcastle Light Rail Project and the AUD 400 million Hunter Street Mall Project being undertaken by Urban Growth NSW in conjunction with GPT.
- (c) Acquisition of the Property increases the Fund's exposure to New South Wales, which is Australia's largest and most successful economy.

- (d) The Property is leased to blue chip tenants:
- i. Australian Tax Office of the Commonwealth of Australia (**ATO**) – The Commonwealth of Australia represents one of the strongest tenant covenants in Australia. The ATO currently occupies 100% of the Property but will progressively surrender its existing lease and commence a new nine year lease in respect of levels 1 – 4 on 1 April 2016 (50% of net lettable area);
  - ii. Commonwealth Bank of Australia (**CBA**) – CBA is Australia’s largest bank and the largest company listed on the ASX, employing over 52,000 people and having a market capitalisation of approximately AUD 135 billion. CBA will commence a new eight year lease in respect of level 5 on 1 May 2016 (12% of net lettable area); and
  - iii. Employers Mutual Management Pty Limited (**Employers Mutual**) – Employers Mutual was established in 1910 and provides workers compensation insurance and management services. It employs over 1,500 people across Australia and has net assets in excess of AUD 110 million. Employers Mutual will commence a new seven year lease in respect of level 6 on 16 May 2016 (12% of net lettable area).
- (e) Vacancy at the Property following the commencement of the leases described above will represent 26% of net lettable area, which will be supported by a 12 month gross rental guarantee provided by the vendor commencing on 1 April 2016. From the effective date of the acquisition of the Property the Fund will have approximately 14 months to lease the vacant space, which if successful will deliver a very attractive fully leased net property yield of 9.5%.
- (f) The Newcastle A-grade office market is very tightly held with vacancy currently sitting at 2.7% and tenant incentives significantly lower than other office markets. Tenants looking for A-grade office space therefore have limited options, which supports the Fund’s view that the vacant space can be leased up during the term of the vendor rental guarantee.
- (g) The Property is currently undergoing an extensive upgrade due for completion in March 2016 which is valued at approximately AUD 6.0 million. The upgrade works will result in substantially improved office accommodation, revitalised common areas and the creation of 360m<sup>2</sup> of new ground floor retail space.
- (h) Acquisition of the Property will result in an increase in the Fund’s depreciation shield from 52.9% to 55.4%, which reduces the amount of withholding tax paid in Australia.
- (i) The Property has a 5 star NABERS energy rating, an important factor in attracting and retaining government and large corporate tenants.
- (j) The WALE is 8.8 years (excluding the vacant space) and contracted annual rental growth is approximately 3.5%.

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

Registered description	Lot 100 on Deposited Plan 788900
Title	Freehold
Sector	Office
Location	Newcastle CBD, approximately 160km north of Sydney
Year built	1998 with extensive refurbishment in 2015/2016
Site area	2,703m <sup>2</sup>
GLA	13,865m <sup>2</sup>
Rent per m <sup>2</sup>	AUD 356
Vacancy	26% (covered by a 12 month gross rental guarantee)

The Property has been valued at AUD 56,750,000 as at 28 January 2016 (being the effective date of the acquisition of the Property) by Newcastle Corporate Real Estate Services Pty Ltd, trading as Knight Frank Newcastle (ABN 48 962 509 406). The valuer, Matthew Shaw, is an independent valuer and is an Associate of the Australian Property Institute and a Certified Practising Valuer (registration no.032440).

## 5. Yield analysis

As at the acquisition date the Property will be fully leased to the ATO. The net property yield on acquisition will be 12.0% (11.4% post all transaction costs).

Following commencement of the new ATO lease, the CBA lease, the Employers Mutual lease and the vendor rental guarantee, the net property yield will be 8.3% (7.8% post all transaction costs) and the blended annualised net property yield from the effective date of the acquisition of the Property until 31 March 2017 will be 8.7% (8.2% post all transaction costs).

Subject to successfully leasing the vacant area at the Property, the potential fully leased net property yield at prevailing rents as at 1 April 2017 will be 9.5% (9.0% post all transaction costs).

## 6. Forecast information on the acquisition of the Property

The forecasts have been prepared with effect from 1 February 2016 and include forecast results for the periods ending 31 March 2016 and 31 March 2017.

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 relate to the Property only and have been prepared in accordance with the Fund's accounting policies and in compliance with IFRS.

	Forecast 2 months ending 31 March 2016 AUD'000	Forecast 12 months ending 31 March 2017 AUD'000
Revenue (including straight line revenue adjustment)	1,340	6,358
Total property expenses	(236)	(1,417)
Net property income	1,104	4,941
Fund management fees	(57)	(340)
Net operating income before finance charges	1,047	4,601
Finance costs	(396)	(2,376)
Net profit attributable to equity holders	651	2,225
Less: straight line revenue adjustment	-	(552)
Distributable income pre-withholding tax	651	1,673
Distributable income post-withholding tax	563	1,660

### Notes:

1. All revenue for the reporting periods shown is contracted and is based on the leases which will be in place at 1 February 2016 and which are due to commence during the relevant periods.
2. Distributions are payable to unitholders attributable to the acquisition of the Property and are partially shielded by depreciation allowances.
3. Material expenditure items relate to the Fund management fees (approximately 19% of total expenses).
4. No material expenditure items have been increased in the forecast period ending 31 March 2017 by more than 15% over the previous financial period.
5. The finance costs assume an all in cost of funds of 3.94% with 75% of the cost of funds fixed via interest rate swaps for 5 and 7 years (in accordance with the Fund's interest rate hedging policy).

**7. Categorisation**

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

Johannesburg  
23 December 2015

Investment Bank and Sponsor  
Investec Bank Limited