

601 Coronation Drive Fund

Investor Update

For the Quarter Ending 31 March 2020

Fund Manager
Capital Property Funds Pty Limited
ACN 162 323 506

601 CORONATION DRIVE FUND UPDATE

Capital Property Funds Pty Limited (the Fund Manager) is pleased to provide the March 2020 Quarter Investor Update for the 601 Coronation Drive Fund ARSN 610 941 654 (the Fund).

This and future updates on the Fund will be placed on our website: www.capitalpropertyfunds.com.au

FUND HIGHLIGHTS

- Quarterly distributions to 31 March 2020 were paid on 24 April 2020. Approximately 1.99 cents per unit, equating to 8.00% per annum annualised, was paid to unitholders;
- The Fund's gearing was 53.2% and the Loan to Valuation Ratio was 54.3% as at 31 March 2020;
- Home Instead executed a new 10 year lease commencing 13 March 2020 to take additional space being the remaining 633sqm on Level 2, relocating from their ground floor space Suite 1A2 of 311sqm and surrendering their lease over this area;
- Occupancy increased to 92% incorporating the new lease to Home Instead;
- The WALE by income increased to 4.5 years incorporating the new lease to Home Instead;
- The independent valuation of the Property by CBRE was \$47,800,000 as at 25 July 2019; and
- Net Tangible Assets (NTA) per unit was \$0.88 as at 31 March 2020.
- COVID-19 - see page 5 for a summary of the Mandatory Code in relation to tenants and rental relief.



FINANCIAL POSITION

The following table summarises the key information for the Fund's financial position as at 31 March 2020.

TOTAL ASSETS	\$'000	48,788
NET ASSETS	\$'000	22,035
DEBT - PROPERTY LOAN	\$'000	25,932
PROPERTY LOAN TO VALUATION (LVR)	%	54.3
LVR COVENANT	%	55.0
FUND GEARING	%	53.2
UNITS ON ISSUE	'000	25,064
NTA PER UNIT	\$	0.88
DISTRIBUTIONS PAID FOR MARCH 2020 QUARTER	cents	1.99
DISTRIBUTION YIELD (ANNUALISED)	%	8.00



LEASING UPDATE

Leasing Agents

Jones Lang LaSalle and Tewksbury Commercial are focusing on the remaining vacant suite on Level 4 (305sqm) and the balance of the ground floor (311sqm), both of which comprise high quality fitouts.

Level 2

Home Instead executed a new 10 year lease to take additional space and occupy the remaining half of the floor (633sqm) commencing 13 March 2020. Home Instead surrendered its ground floor premises of 311sqm on this date.

Occupancy

As at 31 March 2020, 601 Coronation Drive's occupancy increased to 92% incorporating the new lease to Home Instead.

Weighted Average Lease Expiry

The weighted average lease expiry (WALE) by income as at 31 March 2020 increased to 4.5 years incorporating the new lease to Home Instead.

Tenant Diversity

Tenant diversity in the building as at 31 March 2020 was as follows:

Top 4 Tenants by Income

INDUE	30.4%
JUMBO INTERACTIVE	30.0%
QUEENSLAND COLLEGE OF TEACHERS	17.9%
HOME INSTEAD TENANCIES	12.7%

Top 4 Tenants by Gross Lettable Area

JUMBO INTERACTIVE	27.8%
INDUE	26.0%
QUEENSLAND COLLEGE OF TEACHERS	16.7%
HOME INSTEAD TENANCIES	12.5%

COMBUSTIBLE CLADDING REGULATION

Part 3 – Fire Safety Risk Assessment

The final stage of the combustibile cladding regulations involve:

1. completing and registering a building fire safety risk assessment prepared by a fire engineer,
2. a fire engineer's statement; and
3. the final combustibile cladding checklist which are to be completed by 31 May 2021.

On exploring the potential remediation options, the Fund Manager spent a great deal of time holding discussions with different parties - other property owners, agents, consultants and suppliers. The views from these groups has been mixed but generally there appears to be a reluctance within the market to commence wholesale remediation in the very short term, as owners and other stakeholders are waiting for more direction from Queensland Fire & Emergency Services (QFES).

An experienced and well regarded leading Fire Engineer in Brisbane has now been engaged and the Fund Manager has applied for a meeting to be held with QFES to ascertain exactly what fire safety and remediation measures QFES are actually expecting given the fire and safety measures already in place at the property and to identify any immediate risks that need to be addressed to be compliant with the legislation and QFES's assessment of occupier risk and risk mitigation.

Following this meeting, it is expected that the remediation strategy for the property will be determined and a scope for ACP compliance. However, given the current environment in dealing with ACP, together with the COVID-19 issues, this meeting may take some months to occur. From this, the Fund Manager then expects recommendations will ensue, the necessary consultants will be appointed and costings obtained.

This has been a slower process than initially envisioned, but the Fund Manager is working within the guidelines and key dates set by Queensland Government to ensure the right approach is taken.

Capex Debt Facility

As part of the recent debt refinancing, the Fund Manager has established a Tranche B capex debt facility of \$430,000. This Tranche is currently undrawn and can only be drawn exclusively towards potential ACP remediation capital works.

For further details in regards to Queensland ACP registration, please refer to <https://www.saferbuildings.qld.gov.au/index.html>

VALUATION

The following provides a summary of the independent valuation, undertaken as part of the debt refinancing:

VALUATION	\$47.8m
VALUATION DATE	25 July 2019
VALUER	CBRE
CAPITALISATION RATE	7.25%

CORONAVIRUS (COVID-19) PANDEMIC

With the outbreak of COVID-19, it has been a very challenging and changing environment. Property management measures were put in place to ensure a higher cleaning regime, hand sanitisers installed and all operational services and capital expenditure reviewed to minimise costs where possible.

The National Cabinet announced mandatory measures to deal with Tenant / Landlord rental relief on 7 April 2020 (the Code) which are to comprise a mix of rental abatement (i.e. rent free to a minimum of 50% of any rental relief provided) and rental deferment (i.e. rent deferred to after the COVID-19 pandemic has passed and to be repaid over the remaining lease term).

The Code sets out leasing principles in negotiating and enacting appropriate temporary arrangements that should be applied as soon as practicable on a case-by-case basis and came into effect from 3 April 2020.

The Code applies to all tenancies that are suffering financial stress or hardship as defined by their eligibility for the Commonwealth Government's JobKeeper program with an annual turnover of up to \$50 million and have been impacted by a reduction in turnover of at least 30% due to COVID-19.



In compliance with the Code, any agreed rent relief arrangements will take into account the impacts of the COVID-19 pandemic on the tenant, with specific regard to a tenant's revenue, expenses, profitability and remaining lease term. Such arrangements will be proportionate and appropriate based on the impact of the COVID-19 pandemic, plus a reasonable recovery period.

To date, the Fund Manager has received requests for rental relief comprising less than 4% of the building's net lettable area and is in the process of assessing the impact of COVID-19 to determine the proportionate and appropriate relief for any affected tenant.

The lender has been advised of the current requests for rental relief and is supportive of the Fund providing rental relief in line with Government announcements.

DEBT

The previous debt facilities were extended to 16 September 2019 and the Fund Manager finalised a new 2 year debt facility with ING to extend debt financing to the end of the initial 5 year term of the Fund. The new facility has resulted in a significantly lower interest rate for Tranche A of 2.84% compared to the previous facility of 4.365%.

The following table provides a summary of the Fund's borrowings as at 31 March 2020.

Facility Limit \$m	Drawn Amount \$m	Undrawn Amount \$m	Expiry Date	Interest Rate p.a.
Tranche A - \$25.93m	\$25.93m	\$0.00m	16 September 2021	2.84% (Fixed)
Tranche B - \$0.43m	\$0.00m	\$0.43m	16 September 2021	1.00% (Line Fee) ¹
Total	\$25.93m	\$0.43m		

¹ 1% line fee capitalises and increases to BBSY Bid Rate + 1.91% once drawn.

Tranche B is an undrawn tranche to be used for any ACP remediation capital expenditure.

The weighted average cost of the debt for the Fund is approximately 2.81% per annum while Tranche B is undrawn. The Fund's gearing level was 53.2% as at 31 March 2020 which is within its long-term target of 50-55%.



DISTRIBUTIONS

The distribution for the quarter to 31 March 2020 was paid on 24 April 2020.

The distributions paid to date are as follows:

Period	Distribution Paid (cents per unit) ¹	Distribution Paid (annualised yield)
12 August - 30 September 2016	1.10	8.00%
December 2016 Quarter	2.02	8.00%
March 2017 Quarter	1.97	8.00%
June 2017 Quarter	1.99	8.00%
September 2017 Quarter	2.02	8.00%
December 2017 Quarter	2.02	8.00%
March 2018 Quarter	1.97	8.00%
June 2018 Quarter	1.99	8.00%
September 2018 Quarter	2.02	8.00%
December 2018 Quarter	2.02	8.00%
March 2019 Quarter	1.97	8.00%
June 2019 Quarter	1.99	8.00%
September 2019 Quarter	2.01	8.00%
December 2019 Quarter	2.01	8.00%
March 2020 Quarter	1.99	8.00%
Total to Date	29.09	8.00%

¹For applications received before the start of the Period. Applications received after the start of the Period are entitled to a pro-rata distribution from the allotment date.

Investors received approximately 1.99 cents per unit for the March 2020 quarter which equates to an annualised income yield of 8.00% p.a.

This yield is the targeted income distribution outlined in the 601 Coronation Drive Fund Product Disclosure Statement dated 14 June 2017 and RG97 website notice dated 26 September 2017 (together the PDS).

NET TANGIBLE ASSETS

The Fund's net tangible assets (NTA) show the value of the Fund's NTA on a per Unit basis. This amount can be used as an approximate measure of what an Investor could expect to receive per Unit held (before selling costs).

The NTA (including the benefit of the vendor's rental guarantee) is calculated as follows:

$$\begin{aligned} \text{NTA} &= \frac{(\text{Net assets} - \text{intangible assets} +/\text{-} \\ &\quad \text{other adjustments})}{(\text{Number of Units on issue})} \\ \text{NTA per Unit} &= \frac{\$22,034,656}{25,063,915} \\ &= \$0.88 \text{ per Unit} \end{aligned}$$

Contacts

Contact the Fund Manager for:

- Management of 601 Coronation Drive Fund
- New investment opportunities

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Contact the Registry for:

- Enquiries regarding your Unitholding
- Distributions
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IMPORTANT INFORMATION

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A copy of the PDS as well as continuous disclosures may be obtained from <https://oneinvestment.com.au/601-coronation-drive-fund/> or http://www.capitalpropertyfunds.com.au/601_coronation_drive_fund.html