

# 601 Coronation Drive Fund

## Investor Update

For the Quarter Ending 31 March 2019

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 2019 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](http://www.capitalpropertyfunds.com.au)

## FUND HIGHLIGHTS

- Quarterly distributions to 31 March 2019 were paid on 23 April 2019. Approximately 1.97 cents per unit, equating to 8.00% per annum annualised, was paid to unitholders;
- The Fund's gearing was 53.0% and the Loan to Valuation Ratio was 54.4% as at 31 March 2019;
- As previously advised there has been an increased amount of leasing activity successfully resulting in the whole of the ground floor being fully leased. These leases include:
  - A 5 year lease was executed to Home Instead Senior Care for additional space (being the 277sqm adjoining non-fitted out suite) which commenced 1 March 2019, and Urban Fitout constructed a turn-key fitout for the tenant as part of their incentive;
  - A 5 year lease to Generation Health for the 134sqm fitted out suite which commenced 7 January 2019;
- AJ Gallagher occupies all of Level 2 (1,282sqm) under a lease to 31 May 2019 and the tenant has advised it will vacate on lease expiry – see leasing update for more detail;
- Occupancy increased from 83% to 96% (including all the new leases);
- The new debt facility of \$1.0 million to fund a number of capital works and tenant incentives remained drawn to \$0.76 million;
- Construction of the end of trip facility commenced in January 2019, with completion due early May 2019;
- The independent valuation of the Property by CBRE as at 31 August 2018 was \$47,100,000; and
- Net Tangible Assets (NTA) per unit was \$0.88 as at 31 March 2019.



## FINANCIAL POSITION

The following table summarises the key information for the Fund's financial position as at 31 March 2019.

TOTAL ASSETS	\$'000	48,314
NET ASSETS	\$'000	22,041
DEBT - PROPERTY LOAN	\$'000	25,615
PROPERTY LOAN TO VALUATION (LVR)	%	54.4
LVR COVENANT	%	55.0
FUND GEARING	%	53.0
UNITS ON ISSUE	'000	25,064
NTA PER UNIT	\$	0.88
DISTRIBUTIONS PAID FOR MARCH 2019 QUARTER	cents	1.97
DISTRIBUTION YIELD (ANNUALISED)	%	8.00





# LEASING UPDATE

## Leasing Agents

Jones Lang LaSalle are appointed as joint leasing agent with Tewksbury Commercial. The joint leasing agents have successfully now leased the whole of the ground floor and are focusing on the remaining vacant suite on Level 4.

## General Market Update

In the last quarter of 2018, the office leasing market in Brisbane near city/fringe was definitely on the improve. There was a noticeable increase in tenant enquiries over the quarter which saw a significant improvement to vacancy figures which is reflected in the completed leasing deals for the property as outlined below.

## Ground Floor

With the change in leasing agents and an improved outlook for the Brisbane near city/ fringe leasing market, the property experienced a surge in leasing inquiries in the December 2018 quarter which resulted in the following new leases:

- An additional 5 year lease to Home Instead Senior Care for the adjoining 277sqm suite which commenced 1 March 2019, with Urban Fitout constructing a turn-key fitout for the tenant as part of their incentive;

- A new 5 year lease to Generation Health for the 134sqm fitted out suite which commenced 7 January 2019.

The only current vacancy to lease is the fitted out suite on Level 4 – (305sqm), the agents are also looking for leasing commitments for Level 2 which will be available from 1 June 2019.

## Level 2

AJ Gallagher currently occupies all of Level 2 (1,282sqm) under a lease to 31 May 2019. The tenant advised that they were looking to move to the Brisbane CBD to amalgamate several businesses on a single floor plate up circa 2,000sqm.

Unfortunately, 601 Coronation Drive cannot provide for this and although we submitted attractive terms for the tenant to remain in the building, the tenant advised it will vacate on lease expiry.

The tenant has a make good obligation and will pay a cash sum of \$112,300 + GST in lieu of undertaking a make good.

The AJ Gallagher fitout is of a high standard and will appeal to a range of potential tenants as either a single tenancy or as a subdivided tenancy. The make good sum will be used to fund make good works required by an incoming tenant.

Although the preference is to lease the entire floor to a single tenant, the diagram below shows the floor splits well for a potential subdivision of the tenancy into two suites.



## Occupancy

As at 31 March 2019, 601 Coronation Drive's occupancy increased from 83% to 96% (by area) following the execution of leases to Home Instead Senior Care, Defence CRC TAS Ltd and Generation Health (601sqm over the ground floor).

## Weighted Average Lease Expiry

The weighted average lease expiry (WALE) by income is approximately 4.0 years as at 31 March 2019.

## Tenant Diversity

Tenant diversity in the building as at 31 March 2019 was as follows:

### Top 4 Tenants by Income

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INDUE	28.0%
JUMBO INTERACTIVE	20.0%
ARTHUR J. GALLAGHER	19.2%
QUEENSLAND COLLEGE OF TEACHERS	16.4%

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### Top 4 Tenants by Gross Lettable Area

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INDUE	25.9%
JUMBO INTERACTIVE	19.2%
ARTHUR J. GALLAGHER	17.6%
QUEENSLAND COLLEGE OF TEACHERS	16.6%

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## CAPITAL WORKS

In an effort to meet the demands of a challenging leasing market and stay competitive, the Fund Manager implemented a pro-active capital works program to maintain the building's appeal to prospective tenants (including fitouts which formed part of the leasing incentives), as well as preserving the value of the asset.

To fund the capital works, the current debt provider, St George, provided an additional \$1.0 million facility of which \$0.76 million has been drawn down.

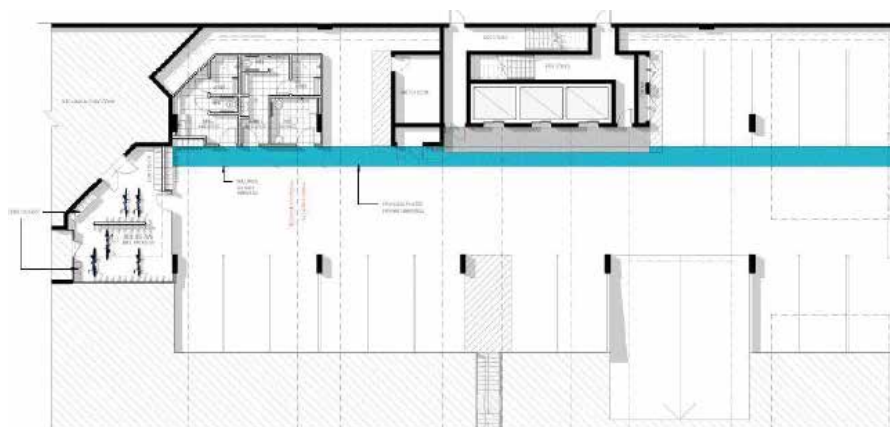
These works included:

- Subdivision of part of the vacant ground floor space to produce two fitted out display suites (now leased to Defence CRC TAS Ltd and Generation Health);
- Subdivision of the remaining part of the vacant ground floor space to produce a turn-key fitout for Home Instead at the front of the tenancy;
- An additional turn-key fitout for Home Instead Senior Care in the rear of the tenancy;
- Fitting out the vacant suite on Level 4 as a display suite; and
- Replacement of the tiles, nose guarding and tactiles to the stairs at the front of the building.

The undrawn amount of the facility will be used to fund the remaining turn-key fitout costs for Home Instead Senior Care and also the end of trip facility which will be completed early May 2019.

## END OF TRIP FACILITY

The Fund Manager completed investigating the installation of an end of trip (EOT) facility incorporating showers and toilets to be located in the car park due to the increased requirement for this facility in the market. The design was finalised (see right) and Urban Fitout commenced work in January 2019 and the EOT is expected to be completed early May 2019.



## VALUATION

The following provides a summary of the independent valuation:

VALUATION	\$47.1m
VALUATION DATE	31 August 2018
VALUER	CBRE
CAPITALISATION RATE	7.25%

## DEBT

The following table provides a summary of the Fund's borrowings as at 31 March 2019.

Facility Limit \$m	Drawn Amount \$m	Undrawn Amount \$m	Expiry Date	Interest Rate p.a.
Tranche A1 - \$22.6m	\$22.60m	\$0.0m	12 August 2019	4.365% (Fixed)
Tranche A2 - \$1.0m	\$0.76m	\$0.24m	12 August 2019	4.35% (Floating)
Tranche B - \$4.52m	\$2.26m <sup>1</sup>	\$0.0m	12 August 2019	5.04% (Floating)
<b>Total</b>	<b>\$25.62m<sup>1</sup></b>	<b>\$0.24m</b>		

<sup>1</sup> \$2,260,000 of Tranche B debt has been repaid reducing Tranche B debt to \$2,260,000 and an additional \$1.0m debt facility drawn to \$0.76m making the total debt \$25,615,494 as at 31 March 2019

The weighted average cost of the debt for the Fund is approximately 4.42% per annum.

The Fund's gearing level was 53.0% as at 31 March 2019 which is within its long-term target of 50-55%.

## DISTRIBUTIONS

The distribution for the period from 1 October to 31 March 2019 was paid on 23 April 2019. The distributions paid to date are as follows:

Period	Distribution Paid (cents per unit) <sup>1</sup>	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%
Total to Date	21.09	8.00%

<sup>1</sup> For 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 1.97 cents per unit for the March 2019 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:

$$\begin{aligned} \text{NTA} &= \frac{(\text{Net assets} - \text{intangible assets} +/\text{- other adjustments})}{(\text{Number of Units on issue})} \\ \text{NTA per Unit} &= \frac{\$22,040,776}{25,063,915} \\ &= \$0.88 \text{ per Unit} \end{aligned}$$

## 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
- Changing contact details

### One Registry Services Pty Limited

PO Box R1479, Royal Exchange NSW 1225  
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