

601 Coronation Drive Fund

Investor Update

For the Quarter Ending 31 December 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 December 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 December 2020 were paid on 25 January 2021. Approximately 2.02 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 54.3% as at 31 December 2020;
- Previously, Getfu Holdings (renamed to Fupay Holdings) had executed a two (2) year lease with a three (3) year option over part level 4 commencing 1 December 2020. The tenant was granted early access from 1 September 2020 and has been in occupation. The tenant also had a first right of refusal over the adjoining tenancy occupied by Inside Travel Group (trading as InsideJapan) and had an immediate requirement to lease additional space;
- The Fund Manager has successfully co-ordinated a three-way lease negotiation to accept a surrender of lease from Benon Technologies (trading as Jumbo Interactive) and InsideJapan who wanted to downsize, to result in the following leasing activity:
 - Jumbo Interactive surrendered its suite on the Ground Floor of 116sqm to accommodate InsideJapan's downsize requirement;
 - InsideJapan surrendered its existing lease for part Level 4 to accommodate Fupay's expansion requirement and executed a new three (3) year lease commencing 21 December 2020 over 116sqm on part of the Ground Floor; and
 - Fupay executed a new lease for both the vacated suite and its existing suite on Level 4 for a new three (3) year lease with a three (3) year option commencing 21 December 2020;
- A Heads of Agreement has been executed and a draft lease issued over the final vacant suite of 311sqm to Arriba Group for a three (3) year lease with a two (2) year option commencing 1 May 2021 with early access from 1 March 2021.
- Occupancy was 96% incorporating the new leases to InsideJapan and Fupay and will increase to 100% on execution of the lease to Arriba;
- The WALE by income was 3.8 years incorporating the new leases to InsideJapan and Fupay;
- The independent valuation of the Property by CBRE was \$47,800,000 as at 25 July 2019;
- Net Tangible Assets (NTA) per unit was \$0.88 as at 31 December 2020; and
- COVID-19 - see page 5 for an update of the Queensland Regulations 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 December 2020.

TOTAL ASSETS	\$'000	48,919
NET ASSETS	\$'000	22,111
DEBT - PROPERTY LOAN	\$'000	25,936
PROPERTY LOAN TO VALUATION (LVR)	%	54.3
LVR COVENANT	%	55.0
FUND GEARING	%	53.0
UNITS ON ISSUE	'000	25,064
NTA PER UNIT	\$	0.88
DISTRIBUTIONS PAID FOR DECEMBER 2020 QUARTER	cents	2.02
DISTRIBUTION YIELD (ANNUALISED)	%	8.00



LEASING UPDATE

Leasing

Last quarter, a lease was executed for a two (2) year term with a three (3) year option commencing 1 December 2020 to Getfu Holdings Pty Ltd (trading as Getfu but since renamed Fupay) over the vacant suite on Level 4 (305sqm). This tenant has been experiencing rapid growth and as part of the lease negotiations, the tenant was granted a “Right of First Refusal” to lease the adjoining tenancy should it become available.

Inside Travel Group Ltd (trading as InsideJapan Tours) occupied the adjoining tenancy on Level 4 (282sqm) with a lease expiry of 31 December 2021 and requested an early surrender of lease but wished to remain in the building and occupy a reduced area; simultaneously, Benon Technologies Pty Ltd (trading as Jumbo Interactive) also indicated a willingness to sublease or surrender its 116sqm suite on the Ground Floor.

The Fund Manager has successfully co-ordinated a three-way lease negotiation to accept a surrender of lease from InsideJapan Tours and Jumbo Interactive to result in the following new leases :-

- 587sqm over part Level 4 to Fupay Holdings (Fupay) for a new three (3) year lease with a three (3) year option commencing 21 December 2020; and
- 116sqm over part Ground Floor to Inside Travel Group (InsideJapan Tours) for a new three (3) year lease commencing 21 December 2020.

Overall, no additional vacancy was created, simply a re-configuration of tenant spaces to accommodate all leasing requirements on extended lease terms.

Tewksbury Commercial and JLL have been successful in leasing the remaining vacant suite on the ground floor. A Heads of Agreement has been executed and a draft lease has been issued over the final vacant suite of 311sqm to Arriba Group Pty Ltd (Arriba) for a new three (3) year lease with

a two (2) year option commencing 1 May 2021 with early access from 1 March 2021.

On execution of this lease, the building will be 100% occupied and Capital Property Funds would like to take this opportunity in thanking the leasing team, Tewksbury Commercial and JLL, for their consistent hard work and efforts to assist the Fund Manager in reaching full occupancy, particularly during a difficult leasing environment caused by COVID-19.

Occupancy

As at 31 December 2020, 601 Coronation Drive’s occupancy was 96% incorporating the new leases to InsideJapan and Fupay and will increase to 100% on execution of the new lease to Arriba.

Weighted Average Lease Expiry

The weighted average lease expiry (WALE) by income as at 31 December 2020 was 3.8 years incorporating the new leases to InsideJapan and Fupay.

Tenant Diversity

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

Top 4 Tenants by Income

INDUE	28.9%
JUMBO INTERACTIVE	27.7%
QUEENSLAND COLLEGE OF TEACHERS	17.1%
HOME INSTEAD TENANCIES	12.1%

Top 4 Tenants by Gross Lettable Area

JUMBO INTERACTIVE	26.2%
INDUE	26.0%
QUEENSLAND COLLEGE OF TEACHERS	16.7%
HOME INSTEAD TENANCIES	12.5%

COMBUSTIBLE CLADDING REGULATION

A Fire Engineer was appointed and an initial meeting held with Queensland Fire & Emergency Services (QFES) to discuss the Building Fire Safety Risk Assessment (BFSRA) prepared by the Fire Engineer. This was to review the fire and safety measures 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.

The Fire Engineer has now prepared a Fire Engineering Brief (FEB) outlining the strategy for remediation works as requested by QFES. The FEB is currently under review and has recommended that additional information be provided on the combustion characteristics of the combustible cladding. This will involve a testing laboratory collecting samples of the combustible cladding installed on the building and undertaking various tests of the samples.

A further meeting will then be held with QFES to gain agreement to the strategy. The Fund Manager expects recommendations will ensue, the additional consultants will be appointed and costings obtained. The Fund Manager is working within the guidelines and key dates set by Queensland Government to ensure the correct approach is taken.

Part 3 – Fire Safety Risk Assessment

The final stage of the combustible cladding regulations involves:

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 combustible cladding checklist which are to be completed by 3 May 2021.



Capex Debt Facility

As part of the debt refinancing in September 2019, the Fund Manager 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

Following the outbreak of COVID-19, property management measures were put in place and reviewed on an ongoing basis to ensure that a diligent cleaning regime and hand sanitisers and appropriate signage were installed.

Following the initial Response Period (29 March 2020 to 30 September 2020) and then the Extension Period (1 October 2020 to 31 December 2020), as noted in previous reports, a rental relief request was received from one tenant comprising less than 4% of the building's net lettable area and the Fund Manager determined and granted the proportionate and appropriate relief documented through a Concession Deed. However, following recent lease negotiations, this has now been resolved and all outstanding rental relief obligations have been terminated.

DEBT

The 2 year debt facility with ING was negotiated to extend debt financing to the end of the initial 5 year term of the Fund. This 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 December 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	\$0.42m	16 September 2021	1.00% (Line Fee) ¹
Total	\$25.93m	\$0.42m		

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 53.0% as at 31 December 2020 which is within its long-term target of 50-55%.

DISTRIBUTIONS

The distribution for the quarter to 31 December 2020 was paid on 25 January 2021.

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%
June 2020 Quarter	1.99	8.00%
September 2020 Quarter	2.02	8.00%
December 2020 Quarter	2.02	8.00%
Total to Date	35.11	8.00%

¹ 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 2.02 cents per unit for the December 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:

$$\begin{aligned}
 \text{NTA} &= \frac{(\text{Net assets} - \text{intangible assets} + / - \text{other adjustments})}{(\text{Number of Units on issue})} & \text{NTA per Unit} &= \frac{\$22,111,149}{25,063,915} \\
 & & &= \$0.88 \text{ per unit}
 \end{aligned}$$

Contacts

Contact the Fund Manager for:

- Management of 601 Coronation Drive Fund
- New investment opportunities

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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