

601 Coronation Drive Fund

Investor Update

For the Quarter Ending 30 September 2021

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 September 2021 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 30 September 2021 were paid on 22 October 2021. Approximately 2.02 cents per unit, equating to 8.00% per annum annualised, was paid to unitholders;
- The Fund's gearing was 49.5% and the Loan to Valuation Ratio was 50.6% as at 30 September 2021;
- Occupancy was 100% as at 30 September 2021;
- The WALE by income was 3.1 years as at 30 September 2021;
- The independent valuation of the Property as at 30 June 2021 was \$51,250,000; and
- Net Tangible Assets (NTA) per unit was \$1.02 as at 30 September 2021.

Investors were recently notified that the initial 5 year term of the Fund was coming to an end. Investors were provided with a potential opportunity to vote on extending the Fund for a further 2 year term or sell the property.

Investors were also given the opportunity to elect to exit the Fund or acquire additional Units (subject to availability) through submitting Buy/Sell Forms.

In accordance with the original Product Disclosure Statement for the Fund dated 14 June 2017, if Buy/Sell Forms containing requests from Investors wishing to sell more than 50% of the units in the Fund on issue were submitted, then the Fund would be required to be wound up with an orderly sale of 601 Coronation Drive Toowong being undertaken.

The 50% threshold required to sell the property was not reached and as a result, the investment period of the Fund has been extended by two years to around 5 August 2023.

On that basis, as previously advised in the notification to Investors containing the Buy/Sell Form, the Fund Manager will soon provide Investors with the opportunity to consider a restructure proposal involving additional Fund liquidity opportunities and allowing the Fund to acquire other property assets to provide location, property and tenant diversification benefits.



FINANCIAL POSITION

The following table summarises the key information for the Fund's financial position as at 30 September 2021.

TOTAL ASSETS	\$'000	52,363
NET ASSETS	\$'000	25,495
DEBT - PROPERTY LOAN	\$'000	25,939
PROPERTY LOAN TO VALUATION (LVR)	%	50.6
LVR COVENANT	%	55.0
FUND GEARING	%	49.5
UNITS ON ISSUE	'000	25,064
NTA PER UNIT	\$	1.02
DISTRIBUTIONS PAID FOR SEPTEMBER 2021 QUARTER	cents	2.02
DISTRIBUTION YIELD (ANNUALISED)	%	8.00



LEASING UPDATE

Leasing

The Telstra Corporation lease over the basement area and rooftop telecommunication facility expires on 31 May 2022. The lease terms for a new lease have been negotiated for a 10 year term from 1 June 2022 to 31 May 2032. The lease has been issued to Telstra and is under review .

Occupancy

As at 30 September 2021, 601 Coronation Drive's occupancy was 100%.

Weighted Average Lease Expiry

The weighted average lease expiry (WALE) by income as at 30 September 2021 was 3.1 years.

Tenant Diversity

Tenant diversity in the building as at 30 September 2021 was as follows:

Top 4 Tenants by Income

INDUE	27.8%
JUMBO INTERACTIVE	26.8%
QUEENSLAND COLLEGE OF TEACHERS	16.5%
HOME INSTEAD TENANCIES	11.7%

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 needed to be addressed to be compliant with the legislation and QFES's assessment of occupier risk and risk mitigation.

The Fire Engineer prepared a Fire Engineering Brief (FEB) outlining the strategy for remediation works in relation to the cladding of 601 Coronation Drive which comprises Aluminum Composite Panels (ACP). The FEB was requested by QFES to obtain additional information on the combustion characteristics of the building cladding, including the insulation which sits behind the ACP. This involved a testing laboratory collecting samples of the ACP and insulation from the building and undertaking various tests of the samples which have now been completed.

The additional testing has confirmed that the majority of the ACP are fire-retardant panels and the balance of the ACP is combustible, along with the insulation.

Whilst it was initially thought the Fire Engineer and QFES could approve the fire-retardant panels remaining in place, the fire engineer and other consultants have confirmed all ACP will be required to be removed in order to access the insulation which needs to be replaced behind these panels. The combustible ACP and insulation will need to be replaced with either bonded multi-element light weight or solid aluminium panels.

The Fund Manager has appointed a project manager to provide an ACP remediation scope of work and tender package in preparation for undertaking the remediation works along with a panel of consultants required to undertake the project.

The indicative ACP remediation timetable is noted below:

Release Tender to Contractors	1 November 2021
Tender Close	29 November 2021
Award Contract	10 December 2021
Mobilise to Site	28 February 2022
Works Complete	2 August 2022

ACP Remediation and Working Capital Debt Facility

Given the ACP remediation requires all ACP to be replaced, the previous ING Bank ACP remediation facility of \$430,000 was insufficient.

The Fund Manager finalised new loan terms with ING Bank to extend the current debt facility and also increase the ACP remediation facility to \$3,000,000 (Tranche 2) to fund the remediation works.

The Fund Manager also negotiated a working capital facility of \$1,000,000 (Tranche 3) to fund potential investor withdrawal requests that may arise from implementing the restructure proposal should it be approved by investors and also potential capital expenditure.

VALUATION

The following provides a summary of the independent valuation, undertaken for financial reporting purposes and as part of the debt refinancing on 16 September 2021:

VALUATION	\$51.25m
VALUATION DATE	30 June 2021
VALUER	Colliers
CAPITALISATION RATE	6.68%

Valuation and ACP Remediation

The valuation undertaken by Colliers as at 30 June 2021 of \$51,250,000 incorporates an ACP remediation budget of \$3,000,000. At this stage the ACP remediation budget is an estimate and subject to scope of works and tender.

The valuation has also been assessed at \$54,750,000 on the basis that the ACP has been remediated resulting in a valuation uplift of \$3,500,000.



DEBT

The Fund Manager has finalised with the current lender, ING Bank, the refinancing of the debt facility which expired on 16 September 2021.

The following table provides a summary of the Fund's borrowings as at 30 September 2021.

Facility Limit \$m	Drawn Amount \$m	Undrawn Amount \$m	Expiry Date	Interest Rate p.a.
Tranche 1 - \$25.93m	\$25.93m	\$0.00m	30 September 2024	Approx. 2.01% ¹
Tranche 2 - \$3.00m	\$0.00m	\$2.99m	30 September 2024	1.00% (Line Fee) ²
Tranche 3 - \$1.00m	\$0.00m	\$1.00m	30 September 2024	1.00% (Line Fee) ²
Total	\$25.93m	\$3.99m		

¹ Floating rate of BBSY Bid Rate + 1.95% margin.

² 1% line fee capitalises and increases to BBSY Bid Rate + 1.95% once drawn.

Tranche 2 is an undrawn tranche to be used for any ACP remediation capital expenditure.

Tranche 3 is an undrawn tranche to be used for working capital.

The weighted average cost of the drawn debt for the Fund is approximately 2.16% per annum while Tranches 2 & 3 are undrawn.

The Fund's gearing level was 49.5% as at 30 September 2021 which is just below its long-term target of 50-55%.



DISTRIBUTIONS

The distribution for the quarter to 30 September 2021 was paid on 22 October 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%
March 2021 Quarter	1.97	8.00%
June 2021 Quarter	1.99	8.00%
September 2021 Quarter	2.02	8.00%
Total to Date	41.10	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 2.02 cents per unit for the September 2021 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:

$$\begin{aligned}
 \text{NTA} &= \frac{(\text{Net assets} - \text{intangible assets} + / - \text{other adjustments})}{(\text{Number of Units on issue})} & \text{NTA per Unit} &= \frac{\$25,494,611}{25,063,915} \\
 & & &= \$1.02 \text{ per unit}
 \end{aligned}$$

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