

Unlisted Property Trust Report

APN Regional Property Fund

February 2019

Regional property fund with prominent Newcastle office assets offering 7.0%+ distributions

APN Regional Property Fund

Contents

1.	Overview	2
2.	Key Considerations	3
3.	Overview	5
4.	The Properties	10
5.	Financial Analysis	16
6.	Management & Corporate Governance	18
7.	Past Performance	19
8.	Appendix – Ratings Process	20
9.	Disclaimer & Disclosure	21

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

IMPORTANT NOTICE

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For further information, please refer to the Disclaimer & Disclosure notice at the end of this document.

APN Regional Property Fund

February 2019

The APN Regional Property Fund (the "Fund") is an open-ended property fund listed on the National Stock Exchange of Australia (NSX code: APR). The Fund has delivered a total return of 9.4%pa since inception in 2004. The Fund's Responsible Entity, APN Funds Management Limited (the "RE" or "Manager") is seeking to create a level of liquidity to allow existing and new investors to acquire units in the Fund ("the Offer") to assist in the funding of a Withdrawal Offer for existing investors wishing to exit the Fund. The Manager proposes to de-list the Fund following completion of the Offer and provide a similar Offer to investors in five-years, in 2024.

Existing investors can subscribe for up to 9 new units for every 11 units currently owned, at an Offer Price of \$1.4346 per unit via a non-renounceable rights issue, being the current NTA of the Fund.

New investors (Public Offer) can subscribe for new units at the same issue price.

A Withdrawal Offer will be made available to all existing investors at a price range of \$1.4046 - \$1.4176 per unit, reflecting a 1.2% - 2.1% discount to NTA to cover transaction costs. The current NTA is based on two independent valuations completed in January 2019.

Units will be allocated with priority to existing investors, with the balance to new unitholders. As an existing Fund, unit prices are not subject to dilution from acquisition costs from existing properties, as all acquisition costs have been fully expensed in the current NTA. In the event the equity raised under the Offer does not satisfy withdrawal requests, the transaction will not proceed, and the RE will implement an alternative such as a sale of the Fund's assets.

The Fund has experienced limited liquidity with the last trade occurring on the NSX in December 2018 at \$1.20 per unit, or a 16.3% discount to current NTA. Under the transaction, the RE intends to put a resolution to investors to de-list the Fund from the NSX. This would be an ordinary resolution, requiring 50% of votes cast to be passed. In the interim, the Fund has sought a voluntary suspension of trade until the completion of the Offer expected to be on 15th April 2019. Given the sequence of events proposed, Core Property has assessed the Fund as an unlisted property fund that is illiquid and as a five-year investment until 2024.

The Fund currently owns two adjoining A-grade office assets at 26 and 28 Honeysuckle Drive, Newcastle NSW. The properties have a 10-year average occupancy of 99%, with current occupancy of 96.3% and WALE of 3.2 years. The Fund's returns are largely dependent on the renewal of key tenants, Government Property NSW (32% of income, with an upcoming lease expiry in November 2020) and Sparke Helmore (19% of income, with lease expiry in Jan 2027).

The Fund has a \$20.4M debt facility expiring in February 2022, with 50% of the debt being hedged at an all-in-cost of 3.9%. The current Loan to Valuation Ratio (LVR) of 33.4% is within the Fund's target range of 30% - 45% and below the bank LVR covenant of 55.0%. The Fund intends to draw down additional debt to fund capital expenditure with LVR expected to peak at 40% over the next 2 years. The current Interest Cover Ratio (ICR) of 5.1x is well above the bank ICR covenant of 2.0x.

The Manager has forecast distributions of 10.0cpu (annualised) for FY19 and 10.2cpu for FY20, equivalent to a 7.0% p.a. and 7.1% p.a. yield for FY19 and FY20, based on the \$1.4346 entry price. Core Property considers the fees paid by the Fund to the Manager to be appropriate. Core Property estimates five-year, pre-tax Internal Rate of Return (IRR) of between 6.6% - 10.9% p.a. (midpoint 8.7%). Our calculations assume exit costs of 2.1% in year five and are based on a +/- 50bps movement in capitalisation rates and interest rates. The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions and an IRR outside this range is possible based on market conditions.

Investor Suitability

In Core Property's opinion, the Fund would appeal to investors seeking a 7% distribution yield supported by two prominent, well leased, regional office properties. Investors may experience limited capital growth from the Property given its strong occupancy levels. The Offer should be seen as providing liquidity for the Fund until its completion (estimated to 15 April 2019) and investors may expect low liquidity on the NSX thereafter. The Manager intends to delist the Fund which make the Fund illiquid until a further withdrawal offer is provided (expected in five-years, in 2024).

Approved

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

Fund Details

Offer Open:	4 February 2019
Withdrawal Offer Close:	25 March 2019
New Units Offer Close ¹ :	8 April 2019
Min. Investment:	\$10,000, multiplies of \$2,500 thereafter
Issue Price:	\$1.4346
Withdrawal Price Range:	\$1.4046 - \$1.4176
Net Tangible Asset per unit:	\$1.4046 (estimated at completion of offer)
Liquidity:	Illiquid
FY19 Forecast Distributions:	10.0 cpu (annualised) ²
Distribution Frequency:	Quarterly
Initial Investment Period:	Listed on NSX, proposed to de-list. Targeting next liquidity event in 2024.

1. Indicative only. The RE has reserved the right to close the Offer early or extend the Offer.
2. Based on the RE's forecasts for FY19.

Fund Contact Details

Tom Forrest
Head of Direct Property
tforrest@apngroup.com.au
Phone: 03 8656 1025

Note: This report is based on the APN Regional Property Fund Product Disclosure Statement dated 4 February 2019, together with other information provided by APN Funds Management.

Key Considerations

Management: APN Funds Management is a specialist property manager with a “property for income” philosophy. Established in 1996 as part of the APN Property Group, APN currently manages over 100 properties with \$2.8 billion in funds under management. APN has 12 funds including direct property funds, property securities funds and two ASX listed funds, which are managed for institutional and retail investors.

Fund Structure: The Fund is an open-ended property fund which was established and listed on the National Stock Exchange in 2004 (NSX code: APR). Since listing, the Fund has sold its retail properties and returned excess capital to investors. The Manager has established the current Offer to provide existing investors an opportunity to acquire additional units as well as allow new investors to purchase new units in the Fund. The funds raised will be used to provide liquidity for existing investors via a Withdrawal Offer. On completion of the Offer, the Manager proposes to de-list the Fund.

An Offer for New Units: Existing investors can subscribe for up to 9 new units for every 11 units currently owned and oversubscribe for additional new units at an Offer Price of \$1.4346 per unit (being the current NTA). New investors can subscribe for units at the same Offer Price. In the event of oversubscriptions, existing investors will be offered a priority over new investors.

Withdrawal Offer for Existing Units: Existing unitholders have the opportunity to exit at a Withdrawal Price range of \$1.4046 - \$1.4176 per unit, being a 1.2% - 2.1% discount to NTA, reflecting transaction costs.

Properties: The Fund holds two adjoining commercial office buildings at 26 & 28 Honeysuckle Drive, Newcastle NSW. The buildings were constructed in 2005 and 2002 respectively with a combined value of \$51.8M, total net lettable area of 9,421sqm, average occupancy of 96.3% and a WALE of 3.2 years. Average occupancy levels have been around 99% for the past 10 years with key tenants, the NSW Government and Sparke Helmore accounting for 52% of rental income and have been tenants since construction. The Manager is planning upcoming refurbishments to the two foyers and upgrades to end of trip facilities.

Demographics: The properties are located in the heart of Newcastle CBD, which is 160km to the north of the Sydney CBD. Serving as the main economic hub in the Hunter region, Newcastle is considered a leading regional economy with a population of more than 650,000 persons. Commitment from the NSW government of \$650M of investments stand to revitalise the city and provide a stable area for the assets.

Debt Profile: The Fund has a \$20.4M debt facility with the Bank of Melbourne expiring in February 2022 with 50% hedged at an all-in-cost of debt of 3.87%. Upon completion of the Offer, the Fund expects drawn debt to be \$17.3M, with a Loan to Valuation Ratio (LVR) of 33.4%, a within the Fund’s target range of 30% - 40%. The LVR provides a 39% buffer to the bank LVR covenant of 55%. Over the next 2 years the LVR is expected to peak at 40% as the Fund draws additional debt to fund capital expenditure. The Interest Coverage Ratio (ICR) of 5.1x is well above the bank ICR covenant of 2.0x.

Distributions: The Manager is forecasting distributions of 10.0 cpu (annualised) for FY19 and 10.2 cpu for FY20, equivalent of a 7.0% yield for FY19, and a 7.1% yield for FY20.

Fees: Core Property considers the fees to be appropriate for the nature of the Fund (see section: Fees Charged by the Fund).

Total Returns: Core Property estimates the Fund to deliver an IRR of between 6.6% and 10.9% (midpoint 8.7%) over the next-five years. Our calculations are based on the current Offer price and assume exit costs of 2.1% and a +/- 50 bps sensitivity to capitalisation rates and interest rates. Investors should be aware the Fund is exposed to a capital gain or loss and an IRR outside this range is possible based on market conditions.

Liquidity: Investors should view the Offer as providing current liquidity for Fund. Upon the successful completion of the Offer, investors may expect low liquidity of units on the NSX. Thereafter the Manager intends to delist the Fund from the NSX, by ordinary resolution (at least 50% approval) at which time investors should consider the Fund as illiquid until a further withdrawal offer is provided (expected in five years, in 2024) or when the assets are sold.

Investment Scorecard

Management Quality



Governance



Portfolio



Income Return



Total Return



Gearing



Liquidity



Fees



Trust Structure		Fees Paid	
A Managed Investment Scheme. The Fund consists of two commercial office buildings located in Newcastle, NSW. The Fund is currently listed on the National Stock Exchange of Australia.		Core Property considers the Fees charged by the Fund to be above what it has seen in the market (see Figure 6: Fees in Perspective).	
Management		Entry Fees:	Nil
APN Funds Management is a specialist property manager, established in 1996 as part of the APN Property Group. With a "property for income" philosophy, APN currently manages \$2.8 billion of funds under management, including two ASX-listed funds, direct property funds and property securities funds.		Exit Fees:	Nil
Property Portfolio		Establishment Fee (Acquisition Fee):	Up to 5% of property acquisition price
No. of Properties:	2	Property Disposal Fee:	Nil
Valuation:	\$21.9M 26 Honeysuckle Drive, Newcastle NSW \$29.9M 28 Honeysuckle Drive, Newcastle NSW	Ongoing Management Fees:	Estimated to be 1.02% p.a. of GAV of the Fund, consisting of: • 0.65% of GAV p.a. for Management Fee; • 0.37% of GAV p.a. for Property and Facilities management;
Property Location:	26 and 28 Honeysuckle Drive, Newcastle, NSW	Performance Fee:	Nil
Property Sector:	Office	Debt Metrics	
Key Tenants:	Government Property NSW (32%) and Sparke Helmore Lawyers (19%)	Debt / Facility Limit:	\$17.3M / \$20.4M
Occupancy:	96.3%	Loan Expiry:	February 2022
WALE:	Portfolio: 3.2 years. 1.1 years (26 Honeysuckle Drive) & 4.9 years (28 Honeysuckle Drive)	LVR / Loan Covenant:	33.4% / 55%
Return Profile		ICR / ICR Covenant:	5.1x / 2.0x
Forecast Distribution:	FY19: 7.0% pa. (annualised) FY20: 7.1% pa. (annualised)	Legal	
Distribution Frequency:	Quarterly	Offer Document:	Product Disclosure Statement, dated February 2019
Tax advantage:	est. 60% - 78% tax deferred (FY19) est. 64% - 69% tax deferred (FY20)	Wrapper:	Property Fund Listed on the National Stock Exchange of Australia
Estimated five-year Levered IRR (pre-tax, net of fees):	6.6% - 10.9% (midpoint 8.7%)	Manager & Responsible Entity:	APN Funds Management Ltd (ACN 080 674 479) AFSL 237500
Recommended Investment Period:	Five years.		
Risk Profile			
Property/Market Risk:	Capital at risk will depend on the two assets located in Newcastle, NSW. Investors will be exposed to a potential capital gain or loss, based on market conditions.		
Interest Rate Movements:	Any change in the cost of borrowings may impact the distributable income in the remaining term of the Fund.		
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.		
For a more detailed list of the key risks, refer to the "Risk Factors" section of the Product Disclosure Statement.			

Overview

The Fund is an open-ended regional property fund listed on the National Stock Exchange of Australia (NSX code: APR). The Fund consists of two A-grade office assets located at 26 & 28 Honeysuckle Drive, Newcastle NSW. The properties were constructed in 2005 and 2003 respectively with strong occupancy levels averaging 99% over the past 10 years. Key tenants include Government Property NSW and Sparke Helmore Lawyers, who have occupied the Properties since construction. The current portfolio WALE is 3.2 years.

The Fund's Responsible Entity, APN Funds Management Limited (the "RE" or "Manager") has opened the Fund to allow new investors and existing investors to acquire units in the Fund ("the Offer"). The Offer is being undertaken to provide liquidity and assist in the funding of a Withdrawal Offer for existing investors who wish to exit the Fund.

Existing investors have preference in this offer to subscribe for more units via a non-renounceable rights issue:

- Subscription offer is for up to 9 new units for every 11 units currently owned, plus oversubscription for additional new units.
- At a price per unit of \$1.4346 (being the current NTA value).

New Investors will be allocated the remaining units via a Public Offer:

- At a price per unit of \$1.4346 (being the current NTA value).
- The minimum holding for new investors is \$10,000, with multiples of \$2,500 thereafter.

A Withdrawal facility is made available to existing investors wishing to exit:

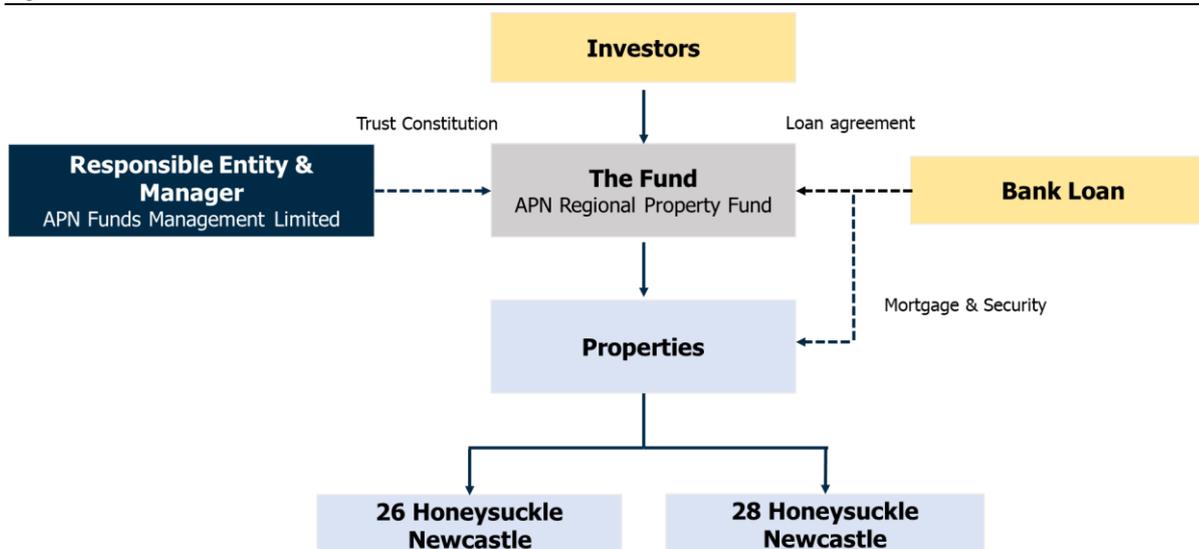
- At a price range per unit of \$1.4046 - \$1.4176 per unit, being a 2.1% discount to the current NTA to cover transaction costs.

The Offer provides liquidity for the Fund by allowing current investors to exit whilst allowing for an opportunity to acquire more units. At the completion of the Offer, the Fund is expected to have low liquidity through its listing on the NSX. Thereafter, the Manager intends to delist the Fund from the NSX and the Fund should be considered illiquid until a further withdrawal offer is provided (expected to be in five-years, in 2024) or the assets are sold.

The offer for new units is centred around the Withdrawal offer:

- If the non-renounceable rights issue is not sufficient to fund the applications for withdrawals, the manager will look to filling the withdrawal amount through the Public Offer. If this is still insufficient, the non-renounceable rights issue and Public Offer will not proceed, and all monies for new units will be returned. The Manager will then proceed to place the properties for sale on the market with a view to winding up the Fund and returning the net proceeds to existing investors.
- If the proceeds of the non-renounceable rights issue is greater than the application for withdrawals, the Manager may, at its discretion, consider to give preference to applications received at the earliest time, or may consider a scale back of the Offer.

Figure 1: Fund structure



Source: APN, Core Property

Key Dates

Figure 2: Key dates of the three offers



Source: Core Property, APN

Sources & Application of funds

The PDS sets out the sources and application of funds under the terms of the Offer on the assumption that all offers are fully subscribed. It should be noted that the Property is already owned by the Fund and, as such, new investors do not incur any Stamp Duty costs to enter the Fund.

Figure 3: Sources and Application of Funds

	\$M	% of total funds
Sources of funds		
Equity issuance proceeds	36.0	90.7%
Additional debt drawn	2.6	6.5%
Cash available	1.1	2.8%
Total sources of funds	39.7	100.0%
Application of funds		
Withdrawal funding and transaction costs	38.6	97.2%
Working Capital	1.0	2.8%
Total application of funds	39.7	100.0%

Source: APN, Core Property

Fund Background and History

The APN Regional Property Fund was established in 2004 to provide investors with exposure to commercial property. Initially, the portfolio consisted of four properties in regional NSW with an extra office building being developed later on. Three properties have since been disposed of with the two remaining being 26 & 28 Honeysuckle Drive. The current portfolio resides in Newcastle and is underpinned by stable and secure tenants such as the Australian Government.

The following table provides a summary of the properties held since IPO by the Fund.

Figure 4: Properties held by the Fund

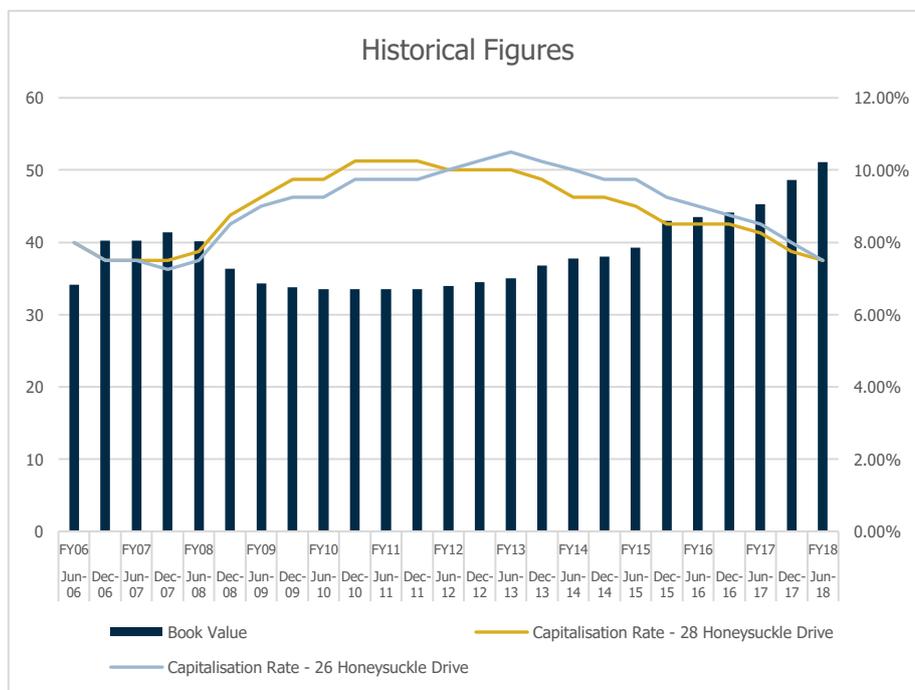
Property	Acquisition Date	Value at Acquisition	Sale Date	Sale Price
Greenpoint Shopping Village	1 November 2004 (IPO)	\$9.1M	9 June 2009	\$8.4M
Grafton Mall	1 November 2004 (IPO)	\$11.0M	14 November 2013	\$10.5M
Parkes Shopping centre	1 November 2004 (IPO)	\$17.3M ¹	16 December 2014	\$10.2M
26 Honeysuckle Drive	October 2005	\$15.1M	Current – As at Jan 2019	Current - \$21.9M
28 Honeysuckle Drive	1 November 2004 (IPO)	\$19.0M	Current – As at Jan 2019	Current - \$29.9M

Note 1: Consists of Stage 1 (\$1.6M), 2 (\$14.9M) and 3 (\$0.8M - completed in 2005)

Source: APN Announcements

Historical Valuation: The two properties currently held by APN Regional Fund were constructed in 2002 and 2005. It was only during 2006 that both properties were valued as developed assets rather than a development project. As at January 2019, the independent valuations reported an average value of the combined properties to be \$51.8M (\$29.9M, \$21.9M)

Figure 5: Historical Valuation of 26 and 28 Honeysuckle Drive – when fully developed



Source: APN (NSX: APR) NSX Announcements

Debt Facility & Metrics

The Fund currently has a \$20.4M debt facility with the Bank of Melbourne expiring in February 2022. The Facility is drawn to \$17.3M with a Loan to Valuation Ratio (LVR) is 33.4%, against a bank LVR covenant of 55%. Core Property calculates that the value of the Property must fall by 39% for this covenant to be breached.

The initial Interest Coverage Ratio (ICR) is 5.1x against a bank ICR covenant of 2.0x. Core Property calculates the net operating income must fall by 61% for this covenant to be breached.

Figure 6: Debt Metrics

Details	Metric
Bank	Bank of Melbourne
Security	First ranked mortgage secured against the Property
Drawn debt / Debt Facility Limit	\$17.3M / \$20.4M
Loan Expiry	28 February 2022
% Hedged	50% (target minimum)
All-in cost of Debt	3.87%
LVR / Peak LVR / LVR Covenant	33.4% / 40.0% / 55.0%
Initial interest covered ratio / Lowest ICR / ICR covenant	5.1x / 3.8x / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	39%
Decrease in rent income to breach ICR covenant	61%

Source: APN Funds Management, Core Property

Liquidity / exit strategy

Investors should view the Offer as providing liquidity for the Fund whilst its trading is suspended from the NSX until the successful completion of the Offer.

Once the Offer has been completed, investors can expect a low liquidity of units on the NSX, based on historical trading.

Upon the successful completion of the Offer, the Manager intends to submit a proposal to unitholders to de-list the Fund from the NSX via an Ordinary resolution (50% minimum acceptance). Should the Fund de-list from the NSX, investors should view the Fund as illiquid and expect to remain invested for an expected five-year period until 2024 when the Manager plans to provide an additional Withdrawal Facility. Investors should be aware that the Manager may sell the assets and wind up the Fund if it considers it in the best interests of Unitholders.

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be at the appropriate for the structure of the Fund.

Figure 7: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry Fee:	Nil	
Exit Fee:	Nil	
Acquisition Fee:	Up to 5.0% of the gross acquisition price of a property.	Core Property considers the Fee to be above the industry average of 1.0% - 3.0%, however we note that this is offset by the Fund not charging a Disposal Fee or a Performance Fee. The Fund has not acquired any properties and has not charged an Acquisition Fee since listing in 2004.
Disposal Fee:	Nil	The Fund does not charge a disposal fee.
Fees & Expenses – Management Fee, Property and Facilities, Expenses, Custody Fees	Total ongoing fees of around 1.02% of GAV p.a. of the Fund, consisting of: <ul style="list-style-type: none"> • 0.65% of GAV p.a. for Management Fees; • 0.37% (est.) of GAV p.a. for Expense Recoveries; 	We consider the Management Fees to be at the low end of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Performance Fee:	Nil	The Fund does not charge a performance fee.

Source: APN, Core Property

All-in fee analysis

Core Property notes the Fund has a unique fee structure which is reflective of being listed on the Newcastle Stock Exchange:

- The Fund charges an Acquisition Fee of up to 5% of the value of the asset, which is at the high end of what we have typically seen in the market (1% - 3%), however this is offset by:
- The Fund does not charge a Disposal Fee on the sale of any assets, however transaction costs are expected through the normal course of a sale, and
- The Fund does not charge a Performance Fee.

Assuming the Fund does not make any further acquisitions, Core Property estimates that APN is entitled to Management Fees equivalent to 5.2% of the total cash flows, which we consider to be appropriate for the nature of the Fund.

The Properties

The Fund's two office assets are located at 26 & 28 Honeysuckle Drive, Newcastle, NSW. The office sites are interconnected and share car parking access but still operate as two separate buildings on separate allotments.

Both sites serve as mirror images of each other. Known previously as Tower 1 and Tower 2 of Honeysuckle House, the assets are modern 7 storey office buildings each with 3 levels of carparking. The ground floor in each building has a retail component and a foyer. The upper 6 levels all serve as "A" grade office accommodation with level 7 having an open terrace in each respective building. Whilst.

26 Honeysuckle Drive currently serves five commercial tenancies and two retail tenancies over seven storeys. The majority of the rental income (80%) are sourced from various NSW Government tenants. The WALE as at January 2019 is 1.1 years (by income). The office building is currently 100% occupied. The net Lettable Area is 4,141 sqm and space for 72 cars.

28 Honeysuckle Drive current serves 6 commercial tenancies, a single retail tenancy and a rooftop telecommunications tenancy. The office building is current 93.5% occupied with a Net Lettable Area of 5,280 sqm and 92 car parking spaces.

The key tenant, Sparke Helmore Lawyers account for 35% of the rental income of the building and have been located at the site since construction in 2002.

28 Honeysuckle Drive is currently undergoing capital expenditure projects to enhance tenant retention. This capital expenditure programs include:

- Foyer upgrades to both office buildings
- Upgrade and expansion to the end of trip facilities which is expected to be completed in FY19
- Upgrades to toilet facilities across 3 levels
- Continual improvement of NABERS energy efficiency rating to reduce outgoings.

Figure 8: 26 & 28 Honeysuckle Drive, Newcastle, NSW



Source: APN

Newcastle Office Market

The Property is located in the heart of the Newcastle CBD being just 1.5km west of the city centre. It is located approximately 450m from the Newcastle interchange and 800m from the current campus of the University of Newcastle (UoN). Along Honeysuckle Drive there are numerous residential and commercial projects. Including the Property there are 6 commercial buildings with a residential project known as Edition. There are also 3 mixed use development projects.

Newcastle is located roughly 160km north of the Sydney CBD. It serves as the main economic hub of the Hunter Region with a large flow of investment into the region recently. The NSW government has committed \$650M to revitalize the areas. Funds will be utilized in an attempt to strength the connections between the city and waterfront, the creation of more jobs, new housing developments and connected public spaces with a stronger transportation system.

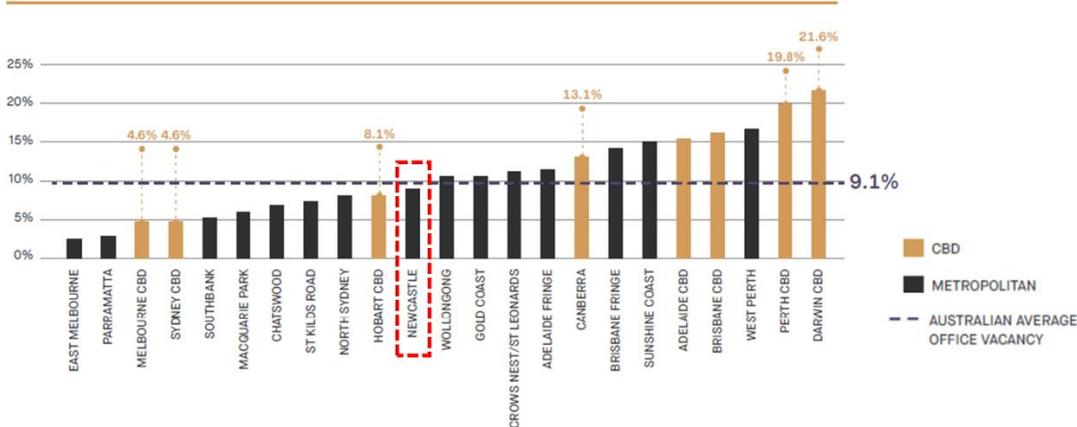
The Hunter region which has undergone major transformation on the back of infrastructure of spending is expected to also have an 8.1% total employment growth from 2015 to 2020. The low cost of living in this area allows for affordable living with the median

house price of \$598,000 (as at October 2018) which is approximately 25% below that of Sydney. This aspect positively affects businesses in the area being able to retain quality employees.

Newcastle is located in the Hunter region, which has a population of around 650,000 people with expectations this will grow by 33.4% (or 0.6% p.a.) by 2036. The city is the seventh largest city in Australia with population growth supported by housing affordability. The Newcastle's office market has one of the lowest vacancy rates of the non-metropolitan office markets in Australia.

Figure 9: Office Vacancy Rates

AUSTRALIAN OFFICE VACANCY RATES²

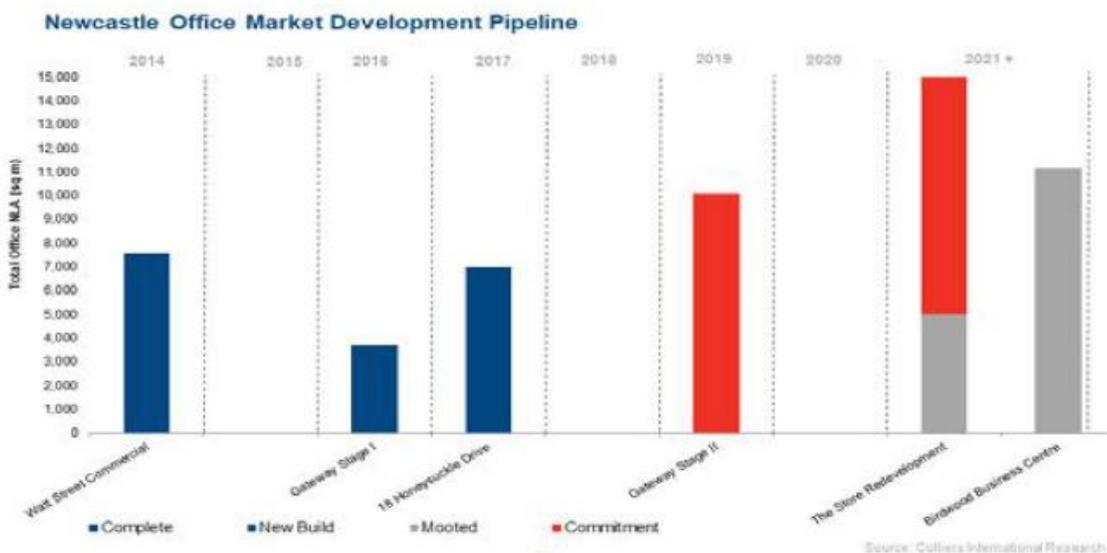


Source: PCA/OMR as at June 2018, CMA

The commitment from the NSW government under the urban renewal program has improved sentiment within the area, resulting in unprecedented demand for apartment living. As a result, the Newcastle CBD has been transformed with new developments in education, residential and commercial and retail development.

Vacancy rates within the short term for A grade office buildings are expected to decrease as demand is absorbed by Stage II of the Gateway project. However, beyond that there is a further 26,000 sqm of NLA being developed in 2021 onwards of which 16,000 are uncommitted. The uncommitted stock is expected to increase the vacancy rates in 2021 with an oversupply in the market and will subsequently place added pressure on current leases that are set to expire in 2021. This increase in vacancy rates is expected to place pressure on rents and incentives over the medium term.

Figure 10: Newcastle Office Market Development Pipeline



Source: Colliers

Property Valuation

Two independent valuations were undertaken by Savills Valuations Pty Ltd and Knight Frank with the average portfolio valuation of \$51.8M at January 2019 (\$21.9M for 26 Honeysuckle Drive and \$29.9M for 28 Honeysuckle Drive). The independent valuations make several assumptions regarding market rent, tenant incentives, re-letting and other factors based on available market evidence. The main assumptions have been adopted in the valuation model.

Figure 11: Valuation Metrics

	26 Honeysuckle Drive	28 Honeysuckle Drive
Title	Freehold	Freehold
Construction Date	2005	2002
Ownership	100%	100%
Net Lettable Area	4,141 sqm	5,280 sqm
Major Tenant	Government Property NSW (72.8% NLA)	Sparke Helmore Lawyers (32.7% NLA)
Weighted Average Lease Expiry	1.12 years (by income)	4.88 years (by income)
Occupancy	100%	93.5%
Net passing income	\$1.8M p.a.	\$2.3M p.a.
Net Market income (fully leased)	\$1.8M p.a.	\$2.3M p.a.
Valuation (DCF)	\$21.85M	\$29.9M
Passing initial yield	8.16%	8.17%
Capitalisation rate	7.25%	7.25%
Valuer	Savills & Knight Frank	Savills & Knight Frank
Discount rate	8.00%	8.00%
Value/sqm	\$5,246	\$5,676
Valuer's unleveraged 10-year IRR	7.98%	8.20%

Note: Valuation as at January 2019 Source: APN, Knight Frank

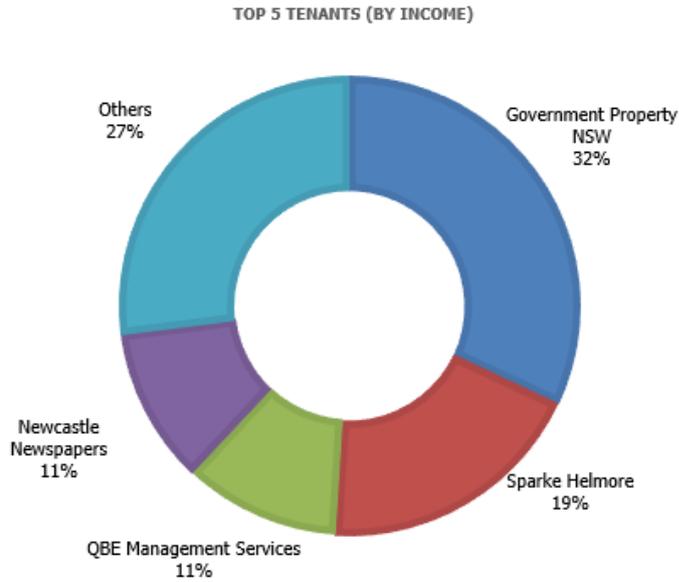
Lease Summary

The portfolio income is secured by numerous national corporate and government tenants which account for over 96% of rental income. APN Regional Property Fund has experienced a stable tenancy history with occupancy levels at 99% for the last 10 years. There has also been a strong history of tenant retention with 6 tenancies completing lease extensions over the past 7 years and numerous tenants renewing for a second and third time.

These main tenants include:

- **Government Property NSW (32% of total income)** currently occupy 3,014 sqm of 26 Honeysuckle Drive and have been tenants since the property was constructed in 2005. The current lease expires in November 2020 with a 5-year option at the end of the term.
- **Sparke Helmore Lawyers (19% of total income)** currently occupy 1,721 sqm of 28 Honeysuckle Drive and have been tenants since the property was constructed in 2003. The current lease expires in January 2027 with no option at the end of the term. Previously, Sparke Helmore occupied 2,721 sqm across 3 levels. Level 5 was surrendered in February 2019.
- **QBE Management Services (11% of total income)** currently occupies 1,004 sqm of 28 Honeysuckle Drive. QBE recently renewed their term which started in 2017 on a 3-year option.
- **Newcastle Newspapers (11% of total income)** currently occupies 1,061 sqm of 28 Honeysuckle Drive and became a tenant in 2015 on a 5-year lease expiring in November 2020.
- **Yancoal Australia Ltd** became a tenant at 28 Honeysuckle Drive in February 2019. Level 5, which was surrendered by Sparke Helmore Lawyers will be partially taken up by Yancoal.

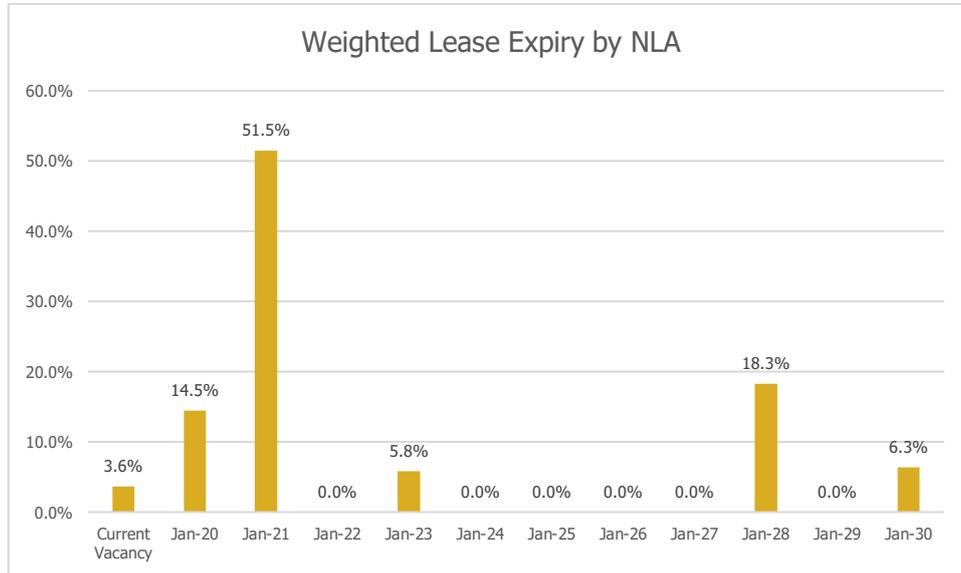
Figure 12: Tenant profile by Income



Note: Based off FY18 data Source: APN

Currently, the portfolio has a vacancy of 3.6% in terms of NLA due to Sparke Helmore vacating level 5 of 28 Honeysuckle Drive. However, this vacancy is offset in terms of rental income by the leasing of part of level 5 to Yancoal and an increase in average rents.

Figure 13: Property Portfolio Lease Expiry Profile – by NLA



Source: Knight Frank

Market Sales Evidence

The table below shows the comparable transactions for office assets over the past 2 years. The sales evidence suggest that the Properties are considered conservatively valued in comparison to the market, with a higher yield.

Figure 14: Market Sales Evidence

Property	State	Sale Date	Sale Price	Passing Yield	Price per sqm (\$ psqm)
88-90 Crown Street, Wollongong	NSW	Dec-18	\$50.4M	7.69%	\$5,493
309 Charlestown Road, Charlestown	NSW	Jul-18	\$15.0M	7.20%	\$5,172
99 Georgiana Terrace, Gosford	NSW	May-18	\$43.5M	6.96%	\$5,894
18 Honeysuckle Drive, Newcastle	NSW	Oct-17	\$4.6M	n/a	\$9,037
43 Burelli Street, Wollongong	NSW	Sep-17	\$46.1M	7.38%	\$4,758
51-55 Bolton Street, Newcastle	NSW	Jan-17	\$20.6M	6.30%	\$3,354
Average / (Range)				7.11% / (5.70%-7.69%)	\$5,618 / (\$3,354-\$9,037)
26 Honeysuckle Drive			\$21.85M	8.16%	\$5,246
28 Honeysuckle Drive			\$29.90M	8.17%	\$5,676

Source: Knight Frank, Savills, APN

Rental Evidence

The table below shows that the combined rent of the properties is currently over the market rent by 2.6%. Core Property expects the rent going forward to be in line with the market. The rental evidence suggests that 26 Honeysuckle Drive is under rented due to the parking segment whilst the office and retail segment is above market rent. 28 Honeysuckle Drive is above the market rent due to the office and parking segments. The retail and other segments are in line with market rent.

Figure 15: 26 Honeysuckle Drive

Use	Passing Income	\$/m ² pa	Market Income	\$/m ² pa
26 Honeysuckle Drive				
Office	\$1,604,324	\$397	\$1,606,697	\$397
Retail	\$41,200	\$425	\$28,348	\$292
Parking	\$146,545		\$199,780	
Total Rent	\$1,792,069		\$1,834,825	
28 Honeysuckle Drive				
Office	\$2,166,771	\$419 ¹	\$2,025,750	\$392
Retail	\$45,702	\$481	\$45,702	\$481
Parking	\$265,063		\$254,100	
Other	\$17,500		\$17,500	
Total Rent	\$2,495,036		\$2,343,052	
Combined Rent	\$4,287,105		\$4,177,877	

Note 1: Figure includes vacant spaces Source: Knight Frank

Capital Expenditure

APN has forecasted capital expenditure for FY19 is \$2.3M with \$1.5M coming from maintenance and upgrades and the other \$0.8M being used for leasing incentives. The large jump from FY18 reported CAPEX of \$0.4M is largely attributed to the firm's asset enhancement program which is being utilised to maintain the tenancy rates of the firm. This program is focussed on:

- Improved tenant amenity and retention rates by improving the end of trip facilities
- Upgrading the foyer of both buildings
- Refurbishing the bathroom facilities
- Improve the NABERS energy rating by improving the buildings efficiency.

The large increase of leasing incentives can be attributed to one of the largest tenants at 28 Honeysuckle Drive – Sparke Helmore. This tenant has renegotiated a new lease agreement.

The capital expenditure is to be funded by an additional drawdown in debt. Based on the Manager's forecasts the LVR is expected to peak at 40.0% by FY21.

Financial Analysis

Core Property has undertaken a financial forecast of the Fund based on the Manager's assumptions. The key observations are:

- The Manager is forecasting distributions of 7.0% (annualised) in FY19, increasing to 7.1% in FY20

A summary of the Manager's forecasts from the PDS is presented below.

Figure 16: Profit & Loss Forecast & Balance Sheet

Profit & Loss - Forecast \$M	Allotment to 30 June 2019	FY20
Net Property Income	0.8	3.9
Interest Income	0.0	0.0
Total Income	0.8	3.9
Management Fee	-0.1	-0.4
Other Fund expenses	-0.0	-0.2
Total Expenses	-0.1	-0.6
Interest on Bank Loan	-0.2	-0.8
Net Cash Earnings	0.5	2.6
Distributable Funds	0.5	2.6
Distributions per Unit (cpu)	2.09	10.20
Annualised distribution rate (cpu)	10.04	10.20
Distribution Yield % (Annualised)	7.0%	7.1%
Forecast Balance Sheet – \$M		At Allotment
Cash		0.80
Investment Properties		52.7
Other		0.2
Total Assets		53.6
Bank Borrowings		17.3
Other		1.1
Total Liabilities		18.4
Net Assets		35.2
Debt/ Total assets		33.4%
NTA per unit		\$1.4046

Source: APN

Current NTA

The Properties already form part of the Fund and all acquisition costs have been fully expensed. As such, investors do not suffer any dilution for acquisitions on current properties.

Expected Future Performance (IRR Sensitivity)

Core Property has estimated the total return from the Fund based on the assumptions provided by the RE.

Using these assumptions Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 6.6% - 10.9% (midpoint 8.7%). Our calculations assume a +/- 50bps movement in capitalisation rates and the cost of debt.

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions) which will result in either a capital gain or loss for investors.

Our calculations are based on an all-in-cost of debt of 3.9% for five years, with 50% of debt hedged, which reduces the impact that interest rates have on the IRR. A change in the terminal capitalisation rate has a more material impact on IRR. We also assume that investors are able to exit the Fund at the end of five years either through a sale of the Properties or withdrawal facility, assuming 2.1% transaction costs.

The table below summarises our expected IRRs.

Figure 17: Pre-tax, 5-year IRR (after fees) sensitivity analysis

Terminal cap rate	Cost of debt				
	2.90%	3.40%	3.90%	4.40%	4.90%
6.50%	12.1%	12.0%	11.8%	11.7%	11.6%
6.75%	11.0%	10.9%	10.8%	10.6%	10.5%
7.00%	9.9%	9.8%	9.7%	9.6%	9.5%
7.25% (base)	8.9%	8.8%	8.7%	8.6%	8.4%
7.50%	7.9%	7.8%	7.7%	7.6%	7.4%
7.75%	7.0%	6.9%	6.7%	6.6%	6.4%
8.00%	6.1%	5.9%	5.8%	5.6%	5.5%

Source: Core Property

Management & Corporate Governance

Background of APN Property Group and the Manager

APN Property Group is a real estate investment manager managing funds on behalf of institutional and retail investors. Established in 1996, APN Property currently has \$2.8 billion of funds under management, comprising Real Estate Securities Funds, two ASX listed funds and unlisted property funds.

APN Funds Management Limited was established in 1996 as a wholly owned subsidiary of APN Property Group Limited. Currently, APN actively manages 12 funds that consist of domestic and international property securities, direct property and listed funds.

Board of the Responsible Entity

Core Property has reviewed the composition of the RE board and believes that it has the relevant skills and experience to operate the Fund successfully. Each Director has demonstrable property and investment management skills. Core Property notes the Board consists of a majority of independent directors, providing a strong governance structure. We summarise the background of the directors and key managers, as provided in the IM.

Figure 13: The Board of the Responsible Entity

Name & Role	Experience
Geoff Brunson Independent Chairman	Geoff has been the Chairman since April 2012 and a Director since 2009. He has over 25 years' experience in investment banking and up until 2009 served as the Managing Director and Head of Investment Banking of Merrill Lynch Australia.
Michael Johnstone Independent Director	Michael has over 40 years' experience in global businesses in key positions such as Chief Executive and general management. He currently serves as the non-executive director of the Responsible Entity of the listed Charter Hall Education Trust.
Jennifer Horrigan Independent Director	Jennifer has over 25 years' experience across investment banking, financial communications and investor relations. She currently serves as a director of QV Equities after coming across from the independent investment bank Greenhill & Co as the Chief Operating Officer in Australia.
Howard Branchley Independent Director	Howard has over 30 years' experience within the Property sector where he founded the property research firm PIR. He established APN's Funds management business and currently serves as a Non-Executive Director of National Storage REIT.
Michael Groth CFO & Alternate for Howard Branchley	Michael currently serves as the Chief Financial Officer for APN Property Group. He has over seven years' experience with KPMG Melbourne prior to moving to the United Kingdom to work in the financial services industry and for a government regulatory body. Michael joined APN in 2006 and was appointed Chief Financial Officer in June 2014.

Source: APN

Compliance and Governance

The RE has a Compliance Plan which has been lodged with ASIC, as required by the Corporations Act. The Compliance Plan outlines the policies and procedures for the RE to administer the Trust's assets, engagement of external service providers, valuation practices, borrowings and reporting to unitholders. The Compliance Committee consists of three members, including two external members, and meets half yearly.

Management Team

The Fund is managed by the APN Property Group. The key individuals responsible for the Fund are set out below.

Figure 14: APN Management team

Name & Role	Experience
Tim Slattery Chief Executive Officer	Tim has 14 years' experience across real estate investment management, investment banking with Goldman Sachs and corporate law with Herbert Smith Freehills, including 9 years with APN. Tim has worked on over \$8 billion of transactions, including the listing on the ASX of Industria REIT and Convenience Retail REIT.
Michael Groth Chief Financial Officer	Michael currently serves as the Chief Financial Officer for APN Property Group. He has over seven years' experience with KPMG Melbourne prior to moving to the United Kingdom to work in the financial services industry and for a government regulatory body. Michael joined APN in 2006 and was appointed Chief Financial Officer in June 2014.
Tom Forrest Fund Manager and Head of Direct Property	Tom has over 15 years' experience in the property sector across institutional capital transactions, investment sales and property valuations. He has worked at Savills as an Associate Director of Retail Investments as well as with Vicinity Centres within the capital transactions team responsible for over \$5 billion of sales, acquisitions and joint ventures. Tom joined APN in April 2017 and assumes direct responsibility of the Fund in February 2018.
Joseph De Rango Head of Business Development and Corporate Finance	Joseph has over 13 years' experience in real estate, corporate advisory and investment banking. He has held leadership roles and worked on major transactions at National Australia Bank and PricewaterhouseCoopers. Joseph holds a Bachelor of Commerce (Finance) and Bachelor of Business Information Systems (IBL) from Monash University.

Source: APN

Related Party Transactions

The Fund has in place a Related Party Transactions and Conflict of Interest policy. All related party transactions will be assessed for any conflict of interest and to ensure they are at a reasonable arm's length basis on appropriate terms and conditions. The Manager may transact with or invest in other funds managed by the APN Property Group.

Past Performance

APN has provided a summary of returns on unlisted property funds, which is summarised in the table below. Investors should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Figure 15: Performance of APN unlisted property funds

Previous APN Unlisted Funds	Asset Type	Fund Life	Total Equity Return per annum
Property Plus Portfolio	Convenience Retail Portfolio	2002 - 2017	~14.6%
Auburn Property Fund	Retail Development	2014 - 2015	~52.0%
541 St Kilda Road	Office Building	2013 - 2014	~31.0%
Brisbane Technology Park (BTP)	Office Development	2005 - 2013	~15.0%

Source: APN

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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