Australian Property Fund

Interim Portfolio Update

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Introduction

The Australian Property Fund aims to provide investors with income and long-term capital growth by investing in the Wholesale Australian Property Fund (the Fund). This vehicle holds 26 quality commercial properties in major metropolitan markets throughout Australia. The Fund has a long track record of paying a reliable income distribution and achieving solid returns using low debt. Since its inception in March 1985, the average net return to investors through to 31 March 2020 has been 8.9% per annum.

The following portfolio update on the Wholesale Australian Property is provided as at 30 April 2020.

Distribution

The Fund's quarterly distribution has been fixed at 1.81 cents per unit for the remainder of the calendar year. Using the 30 April 2020 unit price, this equates to an annual distribution of 5.83%.

Capital Management

The Fund currently has access to the following forms of capital immediately. In addition, the Fund remains open for investment and continues to receive applications on a daily basis.

Sources of liquidity immediately available as at 30 April 2020 include:

Source	$
Debt – undrawn	$335.0 million
A-REITs	$111.4 million
Cash	$4.0 million
Total	**$450.4 million**

In addition, the Fund currently owns interests in 26 properties and may elect to sell one or more of these to enhance liquidity. The Fund's property at Rose Hill, Sydney, is subject to a compulsory acquisition order from the NSW State Government (to facilitate the construction of the western Sydney metro). We currently expect the property to be acquired and the proceeds to be received in H2 2020. The Fund's interest in the property is currently valued at $16.75 million.

Debt

Drawn debt was reduced to $165 million, which equates to 8.0% of gross assets and is within the target range of 0-15%. Following recent official cash rate cuts, the interest rate on the drawn debt has fallen to approximately 1.60%. No debt is due to mature in the next 6 months.

We have been liaising closely with our lenders and they remain supportive of the Fund.

AREIT returns

As of the 30 April 2020, the value of the AREIT portfolio is $111.4m. The portfolio returned 7.0% in April and has outperformed the S&P/ASX 200 A-REIT Accumulation Index in each of the periods shown in the table below.

WAPF-AREIT PORTFOLIO vs S&P / ASX 200 A-REIT ACCUMULATION INDEX			
	Index	**AREIT Portfolio**	**Excess**
3 Months	-30.0	-25.7	+4.3
Year to Date	-25.4	-20.2	+5.2
1 Year	-20.3	-11.1	+9.2
2 Years (p.a.)	-3.2	5.7	+8.9
3 Years (p.a.)	-1.8	4.7	+6.5
4 Years (p.a)	0.1	6.4	+6.3
5 Years (p.a)	3.0	8.1	+5.1
Since Inception (p.a.)	5.6	9.1	+3.5

Past performance is not a reliable indicator of future performance
Performance is annualised for periods greater than one year. Performance figures are gross of management fees.
Source: AMP Capital, Bloomberg.

Portfolio occupancy

Portfolio occupancy as at 31 March 2020 is 96% and maintaining this over the coming quarter, by working co-operatively with our tenants, is the highest priority of the investment management team. The Fund's weighted average lease expiry is sitting at 4.2 years as at 31 March 2020.

Portfolio management

National Cabinet Mandatory Code of Conduct

On 7 April 2020 the Federal Government announced a Mandatory Code of Conduct setting out principles to govern commercial and retail tenancies affected by the COVID-19 pandemic. Landlords and tenants need to comply with the Code of Conduct where:

- the tenant has annual turnover of $50 million or less;
- the tenant is suffering financial hardship as a result of the COVID-19 pandemic to the extent that it has experienced at least a 30% drop in revenue; and
- the tenant is a participant in the Federal Government's JobKeeper program.

Tenants seeking rent relief will need to be able to show landlords that the relief sought is reasonable and proportionate to the impact of COVID-19 on the tenant's business. The code of conduct will continue for the period of operation of the Federal Government's JobKeeper program.

The Federal Government acknowledges that there are many ways relief can be provided and accordingly the code of conduct is not overly prescriptive on the form of relief, but rather encourages landlords and tenants to negotiate in good faith and agree a way forward which takes into account their particular circumstances.

AMP Capital response

As a response to the Code, we have established a dedicated Rent Relief Committee that meets twice weekly and is comprised of senior executives within the Real Estate business. Where required, we have offered one or more of the following measures to assist tenants and to maintain the long-term value of the property:

- Rent deferrals
- Rent abatements
- Flexible trading hours
- Reduced outgoings.

The Code provides flexibility for the solutions found to be mutually acceptable and, in some cases, the package we have offered includes value enhancing offsets such as an extended lease term.

As discussed shortly, the expected costs of these measures have been factored into the valuation of the properties and into the current unit price.

Portfolio Positioning

In a relative sense, the Fund's portfolio is well positioned.

Within the retail portfolio, three of the four retail properties are anchored by supermarkets and 52% of the retail portfolio revenue is paid by: supermarkets (Coles, Woolworths, Aldi); fresh food (butchers, bakers, grocers etc); healthcare (chemists, pharmacists etc); essential services (banks and Australia Post); or major corporate tenants or government (Kmart, local government). The total retail portfolio accounts for approximately 28.5% of the Fund's revenue.

Within the office and industrial portfolios: 35% of tenants are international businesses; 15% of tenants are government; and 9% are ASX-listed companies. These tenants – which collectively make up nearly 70% of the revenue in the office/industrial portfolio – are less likely to require rent relief. Major tenants within the portfolio include: Commonwealth Government, ACT Territory Government, Queensland State Government, Dentsu Aegis, Kone Elevators, Jaguar Land Rover, Lendlease Engineering, ConocoPhillips and Dulux.

Valuation policy

In response to the COVID-19 pandemic the valuations of all the properties in the Fund which were formerly on a quarterly cycle are now being updated by independent valuers on a monthly basis. The updates take movements in the tenancy schedule, recent comparable transactions and the valuer's latest assumptions around future cash flows into account. These valuations are being used to calculate the unit price.

Valuation update

Valuers are now having regard to the Mandatory Code of Conduct and are including allowances to provide for the impact of expected rent relief after reviewing each tenant in the respective properties. These have been factored into the 30 April numbers.

The table below summarises the valuations and key valuation metrics applied as at 30 April 2020. It also shows the valuation of each of the properties as at 31 December 2020, the pre-COVID draft valuation for 31 March 2020 (which was not booked) and the final valuation as at 31 March 2020.

In April, values fell by 3.0% which was comprised of: a 4.8% decline in retail; a 1.4% fall in office; and a 3.1% decline in the industrial and business park portfolio.

Relative to the draft 31 March 2020 valuations – which were effectively the peak – values have fallen by 5.3%. The reason for this is generally a combination of the following impacts:

- Rent relief to tenants
- More conservative assumptions relating to inputs such as growth rates, incentives and leasing time allowances
- Capitalisation rates being softened

The average capitalisation rate (cap rate) in the portfolio is now 5.78%, which is approximately 485 basis points higher than the 10-year Commonwealth Government bond yield of 0.92%.

The long-term spread between commercial property cap rates and bond rates is approximately 210 basis points. Going into the GFC, commercial property cap rates were just 3 basis points higher than bond rates and even at the height of the GFC the maximum spread was approximately 275 basis points. In normal market conditions, the current spread of 485 basis points would tend to trigger an increase in real estate prices (as cap rates come down to reflect lower interest rates, prices go up). In the current market, the spread supports the view that pricing metrics are sustainable for good quality properties that are well-positioned to bounce back once economic conditions stabilise.

WHOLESALE AUSTRALIAN PROPERTY FUND												Apr-2020
PORTFOLIO SUMMARY		VALUATIONS				30 APRIL VALUATION UPDATE					As at 31 March 2020	
			Draft	Final	Draft	% of Direct	Peak	Cap.		Date of	Occupancy	
Property	Sector	31-Dec-2019	31-Mar-2020	31-Mar-2020	30-Apr-2020	Portfolio	Cap Rate	Rate	Valuer	Valuation	Rate	WALE
		$m	$m	$m	$m							years
Casula Mall	Retail	214.0	215.0	210.0	200.0	10.6%	5.50%	5.75%	Urbis	Apr-2020	99.7%	4.7
Stud Park Shopping Centre	Retail	154.6	154.7	151.3	146.2	7.6%	5.75%	5.75%	Urbis	Apr-2020	100.0%	1.4
Gasworks Plaza	Retail	138.5	138.5	135.1	128.0	6.8%	5.25%	5.50%	Urbis	Apr-2020	93.0%	5.6
Brickworks	Retail	137.0	137.4	135.1	127.3	6.8%	5.25%	5.50%	Urbis	Apr-2020	98.4%	4.0
124 Walker St, North Sydney	Office	126.5	131.0	128.3	125.5	6.5%	5.25%	5.38%	M3	Apr-2020	88.9%	2.3
Bond One, Walsh Bay	Office	142.0	145.0	137.2	135.5	6.9%	5.00%	5.50%	M3	Apr-2020	100.0%	6.4
12 Moore St, Canberra	Office	52.0	50.0	48.5	47.7	2.4%	6.75%	6.75%	M3	Apr-2020	92.2%	1.5
636 St Kilda Rd, Melbourne	Office	121.8	122.3	117.3	116.3	5.9%	5.13%	5.25%	M3	Apr-2020	93.5%	2.4
425 Collins St, Melbourne	Office	42.0	43.4	42.5	39.4	2.1%	4.75%	5.00%	M3	Apr-2020	89.1%	2.7
199 Grey St, Brisbane	Office	98.5	98.9	93.7	94.0	4.7%	6.00%	6.00%	M3	Apr-2020	91.1%	2.6
Gasworks Workspace, Brisbane	Office	78.0	79.0	78.5	77.0	4.0%	6.25%	6.25%	Urbis	Apr-2020	100.0%	4.0
33 Park Rd, Brisbane	Office	47.2	47.9	43.6	44.0	2.2%	7.00%	7.25%	M3	Apr-2020	86.2%	1.9
Stanley House, South Brisbane	Office	31.5	31.5	30.8	31.0	1.6%	5.50%	5.50%	M3	Apr-2020	100.0%	3.8
Connect Corporate Centre B1, Mascot	Industrial	49.0	50.0	49.2	47.0	2.5%	5.50%	5.75%	M3	Apr-2020	94.5%	4.6
Connect Corporate Centre B2, Mascot	Industrial	110.0	110.0	109.0	105.0	5.5%	5.25%	5.50%	M3	Apr-2020	92.9%	8.9
Connect Corporate Centre B3, Mascot	Industrial	186.7	186.7	184.1	177.5	9.3%	5.25%	5.50%	M3	Apr-2020	99.3%	5.7
Hillrose Business Park, Rosehill	Industrial	16.8	16.8	16.8	16.8	0.4%	6.50%	6.50%	CBRE	Jun-2019	100.0%	3.1
Arndell Park Industrial Estate, Arndell Park	Industrial	16.7	16.7	16.7	16.7	0.4%	6.00%	6.00%	CBRE	Jun-2019	100.0%	2.3
CentralWest DC, Laverton North	Industrial	57.5	59.8	59.4	56.7	3.0%	6.25%	6.50%	Urbis	Apr-2020	100.0%	2.5
704-744 Lorimer St, Port Melbourne	Industrial	43.5	43.5	43.3	41.2	2.2%	5.50%	5.75%	Urbis	Apr-2020	53.6%	1.8
2 Pound Rd West, Dandenong	Industrial	22.0	22.0	21.8	21.0	1.1%	5.75%	6.00%	Urbis	Apr-2020	100.0%	2.9
202-228 Greens Rd, Dandenong	Industrial	29.1	29.8	29.6	28.4	1.5%	5.75%	6.00%	Urbis	Apr-2020	100.0%	6.3
121 Evans Rd, Salisbury	Industrial	33.0	35.4	35.2	34.7	1.8%	7.50%	7.50%	Urbis	Apr-2020	100.0%	4.0
Acacia Gate Industrial Estate, Acacia Ridge	Industrial	20.6	20.6	20.4	20.1	1.0%	7.50%	7.50%	Urbis	Apr-2020	97.8%	2.8
7-9 French Ave, Brendale	Industrial	23.7	23.7	23.6	23.7	1.2%	6.00%	6.00%	Urbis	Apr-2020	100.0%	9.8
2 Second Ave, Mawson Lakes	Industrial	35.0	36.2	36.0	36.3	1.8%	7.00%	7.00%	Urbis	Apr-2020	100.0%	10.7
Total - Direct Property Portfolio		2,027.1	2,045.7	1,997.1	1,937.0	100.0%	5.61%	5.78%			96%	4.3
Variance:			0.9%	-2.4%	-3.0%							
Variance to Peak Valuation (draft March 2020):					Variance to peak:			Variance to peak:				
Retail					-6.8%			0.19%				
Office					-5.2%			0.17%				
Industrial					-4.0%			0.20%				
Total					-5.3%			0.19%				

Cancelling withdrawal requests

Withdrawal requests can be cancelled **before** the Specified Withdrawal Date, this includes any withdrawals submitted after 16 March 2020.

Direct investors can do this by contacting our Client Services Team on 1800 658 404 between 8.30am and 5.30pm (Sydney time) Monday to Friday or via email at clientservices@ampcapital.com.

Indirect investors should contact their financial adviser, master trust or platform operator about the availability of cancelling withdrawal requests.

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