



Fund overview

The APN Regional Property Fund is a fixed term, unlisted property fund that is due to expire in June 2024. The properties are located at 26-28 Honeysuckle Drive, Newcastle, New South Wales and comprises two A-grade commercial office buildings situated within the CBD. The Fund aims to provide Unitholders with sustainable distributions with the potential for income and capital growth from commercial property investments.

Manager's report

The Fund continues to perform in line with expectations during the quarter and will deliver an increased distribution of 10.20 cents per unit for FY20 as outlined within the PDS.

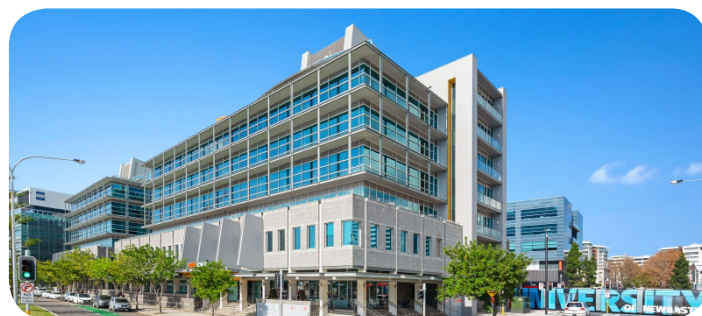
APN has overseen the retendering of all service contracts, such as cleaning and lift maintenance contracts, with the aim of reducing the ongoing cost of running and maintaining the buildings. Whilst the process is still continuing, to date APN has been able to reduce the buildings expenses by approximately \$20/sqm or \$189,000 per annum across both assets. In addition, this process also has the potential to assist with future rental growth given the cost for tenants to occupy the buildings is reduced.

There have been a number of movements from a leasing perspective with an update summarised as follows:

- Following level 6, 26 Honeysuckle Drive (734sqm) becoming vacant on 30 June 2019, the area has been successfully released to a new tenant (Employers Mutual Limited) and commenced their occupation from 1 September 2019 on a 3-year term with a 2-year option period;
- Agreement with Wealth Creation to extend their lease for a further 5 years with fixed 4% annual rent reviews, lease documentation is agreed and is awaiting execution;
- Noble Resources are due to expire in December 2019 and have formally notified APN that they are exercising their four-year option period. A new rental has been agreed which reflects an increase of 8% on the current passing rent.
- The active marketing strategy to lease the 334sqm vacancy on level 5, 28 Honeysuckle Drive (3.6% of total lettable area) is ongoing. A number of enquiries has been received and proposals presented to prospective tenants, including two lease proposals to large corporate tenants which we await feedback on.

Following the leasing outcomes summarised above, the Fund's occupancy has increased from 88% to 96% and the Fund's Weighted Average Lease Expiry (WALE) increases from 3 years to 3.3 years as at 30 September 2019.

We are very pleased with the recent leasing transactions completed which will deliver income levels higher than originally forecast. The properties continue to deliver high occupancy levels which illustrates the attractiveness of the buildings and the strength of the Newcastle office market. The Fund's next major lease expiry is with Property NSW (PNSW) which accounts for approximately 28% of the total rent. The outcome of PNSW's decision relating to their future space requirements is not yet known, and whilst we remain confident of maintaining strong occupancy, until this is resolved, this poses a risk to the short term income levels should their space need to be re-leased. With the attractive purchase



AT A GLANCE as at 30 September 2019

NAV	\$1.4000 per unit
Unit price revaluation	Changes to Net Asset Value per unit are advised following the completion of the audited Annual and Half-Yearly financial reports
Property value	\$51.75 million
Borrowings (loan to value ratio)	34.0%
Weighted Average Lease Expiry (WALE)	3.3 years (by income)
Occupancy	96%
Fund commenced	28 October 2004
Annual distribution	10.20 cents per unit
Distribution yield	7.29%
Distribution payments	Quarterly
Sector allocation by value	Office: 100%
Geographic allocation (by value)	New South Wales: 100%

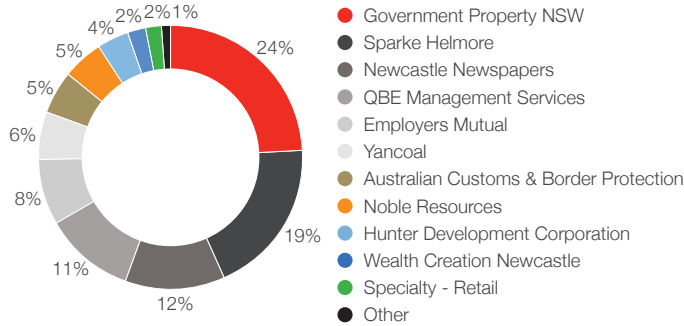
price of the assets and the strength of the leasing results so far achieved, we are confident the assets will continue to be a sound investment, with any short term income reduction, not significantly affecting overall investor returns.

A directors' valuation was undertaken as at 30 June 2019 and is in line with the independent valuation of \$51.75 million as at 31 January 2019. The Fund's asset gearing is currently at 34%, well below the covenant of 55% as noted under the finance agreement.

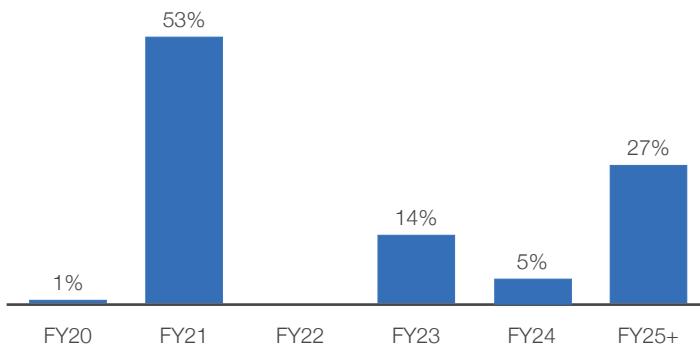
The Fund's audited Net Asset Value (NAV) as at 30 June 2019 is \$1.3970 per unit which has decreased by \$0.0076 per unit from the NAV of \$1.4046 per unit following the recapitalisation. This reduction has been driven by the substantial falls in Australian interest rates since the fixed rate was locked in May 2019 and reflects the liability that would be incurred should the Fund cancel and payout the fixed interest rate hedge. This liability has no impact on future distributions that the Fund is expected to pay and will reduce as the hedging contract expires.



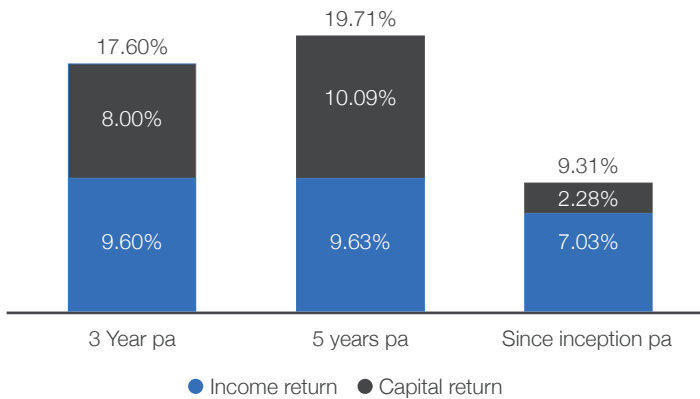
Income split by tenant



Expiry Profile by income



Total Fund Return¹



1. Performance is based on original fully paid units at \$1.00. Past performance is not necessarily a guide to future performance. Fund inception October 2004.

Historical unit values

There is no defined unit price for the Fund. For your reference we have provided the historical Net Asset Value (NAV) per unit.

Date	Net Asset Value (NAV) per unit
30 September 2019	\$1.4000
30 June 2019	\$1.3970
4 February 2019 ³	\$1.4046

3. NAV based on the forecast within the PDS dated 4 February 2019.

Important distribution details / dates

Distribution payment	Accruing at the end of each quarter ending September, December, March and June. Payment is made on the last day of the month (or next business day) following the end of each calendar quarter
Distribution statement	Dispatched at the time of payment above
Tax statement	Dispatched annually (by end of August)

APN Property Group

APN Funds Management Limited (APN FM) is a wholly owned subsidiary of APN Property Group Limited, an ASX listed company (ASX code: APD) that manages approximately \$2.9 billion (as at 30 June 2019) of real estate and real estate securities on behalf of institutional and retail investors. APN FM is an active investment manager with a concentrated focus on income, and has been investing on behalf of its clients in commercial real estate since 1996.

Investment team members

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