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**C & P North East Australia Development Fund**

**Unit Holders Property Report March Quarter 2009**

**Information Table**

**(Updated to 31 March 2009, un audited management accounts)**

|                           |   |                                    |                  |                             |                 |               |
|---------------------------|---|------------------------------------|------------------|-----------------------------|-----------------|---------------|
| <b>Gearing Ratio</b>      | <b>0.55</b> - The funds policy is to be within the .5 - .7 range, with short term variations based on stages in property value add process. |                                    |                  |                             |                 |               |
| <b>Interest Cover</b>     | <b>1.95 times</b> - The fund aim is to maintain an interest cover above 1.5 times over the medium term.                                     |                                    |                  |                             |                 |               |
| <b>Scheme Borrowings;</b> | <b>Lender</b>   | <b>Security Assets</b>             | <b>Principal</b> | <b>Annual Interest Rate</b> | <b>Commence</b> | <b>Expiry</b> |
|                           | <b>(Sub trust – C &amp; P Gold Coast Property Fund)</b>   |                                    |                  |                             |                 |               |
|                           | Perpetual ACF<br>Colonial First State<br>Fund   | Centremark Sth<br>Tweed            | \$4.5M           | 7.4% Fixed                  | 31/3/06         | 30/6/09       |
|                           |   | Centremark Sth<br>Tweed            | \$1.38M          | 8.25% Fixed                 | 8/5/07          | 30/6/09       |
|                           | Perpetual ACF<br>Perpetual Inv Fund   | Centremark Nerang<br>Riverside     | \$6.93M          | 8.15% fixed                 | 7/3/07          | 7/3/10        |
|                           |   | Centremark Nerang<br>Riverside     | \$669,240        | 9.45% fixed                 | 7/5/08          | 7/3/10        |
|                           | Perpetual ACF<br>Perpetual Inv Fund   | Centremark Withcott<br>Town Centre | \$1.435M         | 8.95% fixed                 | 7/5/08          | 7/5/11        |

|                                   |  |
|-----------------------------------|--|
| <b>Portfolio Diversification</b>  | The funds intentions as outlined in the PDS is to acquire value add growth assets in the commercial / retail / service sector in growth regions on North East Australia. To date we have 3 centres geographically spread across the regions of NSW Northern Coastal Border town of Tweed Heads, South East Queensland Corner regional centre of Nerang, and Brisbane/Ipswich/Toowamba regional Development Corridor - township of Withcott. These are all medium sized service centres with a range of tenant mix spread across commercial, health & community service providers, a mix of small food and broad based retailers. Tenant lease mix of 1,3, 5 & 10 year leases plus options. The ongoing intention is to further grow the portfolio to give further diversification and further spread individual tenant risk. |
| <b>Valuation Policy</b>           | The Responsible Entity gets the properties valued at least every 3 years, and more frequently where funders require or major improvements occurred. These valuations will be undertaken only by suitably qualified valuers.  |
| <b>Related Party Transactions</b> | The Responsible Entity (E A Securities Ltd) contracts out the property management services to associated parties related to Mark Walsh. C & P Properties Group also provides at market rates shopping centre management services. Renewable Energy Company has a property maintenance & cleaning division which completes alongside other service providers for handyman and other maintenance services. A Mark Walsh related entity has a small unit holding (approx 10%) in the holding trust, but not a director. The Responsible Entity has a conflicts policy and the other unrelated directors have set guidelines for management to follow to ensure any work on commercial arms length basis.  |
| <b>Distribution Practices</b>     | The fund aims to provide regular distributions in each income year. However the making of distributions is subject to the performance of the fund and the available cash flow to fund distributions. Distributions may comprise a mix of net income and a return of invested capital to unit holders. During the past year the distribution was principally a return of capital and this is likely to continue until the asset value add phase is complete. Therefore ongoing distributions will be dependant on continued cashflow being available. The current distribution of 7.3C per unit p.a. is reviewed regularly by the Responsible Entity  |
| <b>Withdrawal Rights</b>          | <p>The underlying assets of the fund are illiquid, and therefore an investment in the fund should be considered illiquid. A Unit Holder does not have the right to request redemption of their units. There is no established market for the sale of units issued.</p> <p>The Responsible Entity does have the ability to offer redemption but at this point of time and in the foreseeable future the Responsible Entity will not be making an offer.</p>   |

## **CentreMark South Tweed**

New Leasing enquiries continued to be evident during the quarter, but like the past 3-6 months, to date very difficult to get tenant lettings finalised. We managed to secure 1 new lease re letting No 6, 64 Machinery Dr. With official interest rates reduction slowing, and continued negative media in relation to the global financial crisis, even creative incentives have not given tenants the confidence to commit. As mentioned last report I believe potential tenants are waiting on some positive news before moving forward.

The major focus over the past few months on leasing was to present the property in the best position for the loan rollover, due to awareness of the banking crisis and upward movement of valuation yields.

The valuation was undertaken by LandMark White Gold Coast Office, which came in for bank valuation purposes at \$8.5 Million which is a reduction of \$1.3M from the previous valuation provided in February 2007 at \$9.8 Million. Based on investor held units of around 10M units this reflects about 13c per unit reduction. The current valuation is considered disappointing with the valuer using a reversionary yield of 9.91%. This compares with the previous reversionary yield of 7.56%. The valuers comments reflect the major movement in reversionary yield of 2.35% spread, is due to current global slowdown and high level of vacancies for this property.

They also suggested when property is substantially further leased to request an update, which would most likely see a reduction in the yield spread, thus a higher valuation, assuming no other major variable change occurs in the market place.

Ashe Morgan Winthorpe has been engaged to assist in the rollover due to the current tight credit market, and their strong association with lenders. In the current market place the loan refinancing process is taking considerably longer than usual and as such, they are working with both the old and new parties to ensure the smoothest possible transition, and as such extended existing facility till 30/06/09. It is important to note that all is not certain till actually finalised.

We are currently in discussions with the Commonwealth Bank and NAB.

Based on the lower valuation and to ensure a conservative debt to equity ratio of 60%, as loan is non recourse we would propose to reduce the existing debt by \$780K , by adding further equity of \$900K. We are proposing a 2-3 year interest only, variable rate facility, with option to fix the rate at a later date. Interest rate reductions will see the rate reduced from the current 8% to around 6%. This will see a saving in interest payments of over \$100 K p.a.

Clearly we are disappointed by the current higher than expected vacancy rate of this asset, especially during the refinancing period. If these issues can be resolved in the short term we are still overall positive with the medium to longer term outlook for this property.

### **CentreMark Nerang Riverside**

This centre is continuing to perform very well, and above our short term expectations.

The long running battle with Assad G2/G32 was finalised by a deed of agreement signed of by the lawyers on 18/3. The outcome saw the fixtures wanted by new tenant and that would have been costly to remove and make good the premises remain. All other goods returned to the tenant and this was completed on 19/3/09. Although not the ideal result in terms of recovering all monies we felt we were owed, the tenants solicitor created enough "grey" and took us to the QLD Supreme Court based on a series of untruths. This tactical play ensured that they could delay and force us to spend considerably further legal fees and other costs which due to the tenants financial structuring could never be actually recovered. So on a commercial basis and to provide certainty for the new tenant moving in, the matter needed to be finalised.

Lease documents issued for G32 (132 sqm) plus G2 (55sqm). This will make the centre 100% leased. We are working closely with the new tenant to ensure the Assad issues does not effect her ability to get operational. Due to the "Assad issues" a slightly better incentive was provided in year 1 & 2, but reverts to full rental based on \$425pm + O/Goings + GST in year 3.

Three existing small tenancies come up for Market review in May 09, The Fish and Chip Shop, Bakery and Coffee Shop Café. We expect some resistance to the large increase in rents from their existing cheap rents. It is most likely that an average rent of \$400 psm will be achieved with a short to medium term rebate to ease the dramatic rental increase of over 50% of the net rent. A meeting was had with Sarina Russo, where they indicated they wish to stay on subject to budget review and Hinterland Meats are due later in 2009. Cash flow will improve now Assad Legal matter resolved and rental income growth as most of the earlier review rebated now expired.

We are continuing to look at ways in minimizing costs, while maintaining expected service levels and recognizing certain capital costs are required to keep and entice new tenants to the centre.

### **CentreMark Withcott Town Centre**

Basically no leasing changes from last quarter, centre is running smoothly, with 1 small vacancy (shop 13) of 83sqm available. Local Agents have had some interest but cannot get commitment, due to current uncertainty.

Option over adjoining land was exercised on the 1<sup>st</sup> February 2009 with due diligence completed and are currently working with the Architect to lodge DA in the next month.

Broad agreement has been reached with IGA to become the Anchor tenant, initial rent at \$275psm gross, on a 15 year lease + 10 + 5 year options. First stage is for a 1500sqm, expandable to 2800 sqm.

Due to the current market uncertainty we propose to enter into discussions with the vendor to put back settlement till 1<sup>st</sup> December 2009. Construction of the Stage 1 IGA box plus a 200sqm of additional retail would likely to commence in February 2010.

### **Hervey Bay Property**

In summary, no change has occurred. The major property comprising 3 retail/commercial shop fronts are fully leased to established local businesses. Lease expiries are September 09, June 10, and February 11. This generates approx \$137K in gross rental income.

This corner site at 37 Main St, Lease documents are complete for signing by Stegbar. The buildings are older style, but have great exposure including large signage. Major cleanup, landscaping, additional car parking and fitout changes are in progress or completed, to bring up to showroom standard required by this national tenant. The tenants' fitout works are in progress, which will improve the value of our site. The lease for this premise is \$29 000pa + Outgoings + GST. The incentives were slightly more generous than standard.

These sites are part of the Pialba Town Civic Centre redevelopment precinct. Recapping the council time lines have been effected by the council amalgamations, which will delay the project timing, although it will most likely still occur, in the medium term.

### **Coolangatta Airport** – Long Term Land Leases

No changes since last newsletter, recapping GCAL has been under pressure re airside activities which is getting priority over non-core works.

We have met several times to ensure no new issues have developed, and the weaker economic news will most likely assist us in being able to negotiate better terms. A follow up meeting occurred with Woodward Lawyers to document the changes, although delays are also working to our advantage due to the current tight credit markets to fund projects, once Leases signed and approvals received.