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

### **Unit Holders Property Report September Quarter 2009**

#### **General Overview**

A lot can change in a few short months since our early September 2009 Annual Accounts Presentation.

The Australian economy was in for a major recession, no one was sure when the Global Financial Crisis was going to end, and “uncertainty” and “concern” was the underlying themes.

Australia avoided the Recession, and the China / India urbanization phenomenon continued, (although at a slightly slower pace) which offset the deep recession in the United States and Europe.

Belief is that the worst is now behind us, and strong growth numbers from China, India and the other emerging economies point to a rebound in the Australian Economy in 2010/11.

The share market has continued its overall rally, throughout the nervous “October” period, which is a strong indication that a “double dip” is now unlikely to occur.

The other major news for this quarter has been the release of the Federal Government’s Population Growth Report which has highlighted to the broad media, Australia’s ongoing strong population growth, and resulting in large shortfall in homes. To solve this problem the Federal Government will work with the States to fast track further density increases and in filling of existing cities and towns. The report projects the North East Australia urban regions to double in size by 2040. Along with Western Australia these regions topped the growth outlook charts. This growth will fuel growing demand for already scarce strategically located commercial and industrial land, with a likely increase in rental incomes and property values over the medium term.

Subject to the Banks and other Commercial Property lenders, being in a position to provide a reasonable level of financing to purchasers and existing debt roll over’s, there is growing confidence that the property market is likely to follow the lead of listed Equities Market and rebound in 2010.

Your support shown to our management team at the recent Annual Meeting is greatly appreciated, thank you, especially during difficult economic times. We will do our best going forward, to justify your continued support moving forward.

## Information Table

(Updated to 30 September 2009, unaudited management accounts)

|                           |                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                  |                             |                 |               |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------------------|-----------------|---------------|
| <b>Gearing Ratio</b>      | <b>0.63</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>1.56 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           | 6.3% Variable               | 31/3/06         | 1/11/10       |
|                           |                                                                                                                                             | Centremark Sth<br>Tweed                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | \$1.38M          | 6.3% Variable               | 8/5/07          | 31/12/09      |
|                           | 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>(Sub trust – C&amp;P Hervey Bay Property Trust)</b>                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                  |                             |                 |               |
|                           | Perpetual ACF<br>Colonial First State<br>Fund                                                                                               | 31 Main St and 37<br>Main St                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | \$714,600        | 7.15% variable              | 31/10/05        | 1/11/10       |
|                           | <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 4 centres geographically spread across the regions of NSW Northern Coastal Border town of Tweed Heads, South East Queensland Corner regional centre of Nerang, Hervey Bay Qld 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 4.5c 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>                                                                                                                                                                                                                                            |

### **South Tweed Centre**

Leasing enquiries continued to be evident during the quarter, but we did not get any new tenant lettings finalised. A major push with the local agents continued. Competition from other landlords was strong during the quarter giving prospective tenants more bargaining power.

The relocating of Carpet Court to 1/62 Machinery Drive from an older style premises several doors down was completed in July 09, also management was able to hold onto G J Gardiner Homes, with them resigning for a further 3 years. The Day Spa was sold, and this gave us the opportunity to sign the new owner on a new 5 year lease, as well as the spa having a "make over". Shop 6/64 also signed a further 12 month extension to his lease. The Barbeque Centre did not renew their lease which expired at the end of September. No upcoming lease expiries are due till late 2010.

This individual property continues to struggle in terms of reducing its overall vacancy rate. The local underlying leasing market seems to have leveled out over the past quarter, with new supply slowing and some take up starting to occur.

With the Finance Market slightly improving a rollover facility has been secured with our existing lender Colonial First State for a further 12 Months till October 2010. As previously indicated we would be required to pay off \$1.38M from the total loan leaving \$4.5M, to be funded by the new equity raised via the upcoming Rights Issue.

### **Nerang Centre**

This centre is continuing to perform above expectations, with the centre 100% leased. This local area has not been adversely effected by the broader economic slow down, with retail sales being maintained, and the tenant mix of community, health and service related sectors being unaffected.

The Manager has been successful in securing new leasing arrangements with all existing tenancies as and when their leases expired. Considering the difficult economic environment the terms achieved were very pleasing. The major highlight was resigning for a further 3 years, the Sarina Russo Employment Centre, with their office rent increasing from around \$80000. to \$100000. pa gross. The previously set benchmark rental rates were maintained for the leases being renewed for Hinterland Meats, Fish & Chips & Coffee Break. The centre has no major lease renewals due till mid 2010.

We are being successful in minimising outgoings and other costs, while maintaining expected service levels.

We are in early discussions with the Cinema operator to look at expanding from the current 4 to 6 screens, as well as looking to add further retail space and car parking.

This centre is continuing to go from strength to strength.

### **Withcott Centre**

Leasing at the existing centre is within managers expectations and overall the centre is running smoothly. The Medical Centre renewed their lease for a further 17 months, at a market rent, seeing a 44% increase in net rent from \$24000.pa to \$34560. pa, reflecting \$240. psm net + O/G + GST.

The newsagent was sold and the new owners are completing a "mini make over". The rent is due for a market review at the end of December 09, which will see a 40% increase from \$16 469 pa to \$23040 pa.

The Manager is working with the Pet Shop owner to bring arrears up to date and sub lease opportunities for part of their excess space requirements.

Management is in the planning and costing stage of completing a refurbishment and upgrade of the open air courtyard, with the intention of increasing through visibility and install more out-door seating and signage to cater as a "Rest Stop" for passing motorists.

An overall leasing strategy plan, including specific retail use zones has been completed. Early relocation discussions with effected tenants has occurred, and once fully implemented will see a further increase in the centres overall rental income. These core changes will ensure the success of the Stage 1 Centre Expansion, post settlement of adjoining land.

### **Progress of Development Application**

We are still waiting for the Council to release the Development Application Approval, including terms and conditions. The manager and Architect made a presentation at a full council meeting to get councillors to put pressure on Queensland Roads and Department of Environment, who are concurrent consent authorities to provide approval conditions, as to enable council to release the DA Consent along with their terms and conditions. At the meeting the councillors gave their full support for the project, and understood our frustration, while at the same time highlighting the safety concerns with the Jones Rd and Warrego Highway intersection. Follow up to that meeting, was that Queensland Roads would endeavour to have terms of approval all finalised by early December.

With agreement of the vendor, settlement of the adjoining land has been put back till 18/12/09, although interest will now be charged at a rate of 10% pa, on the remaining balance till settlement. The proposed Rights/Equity Issue (refer SPDS Document), will be used to fund settlement of this adjoining land.

We are still progressing with the intention to commence construction of the Stage 1, 1500 sqm Supermarket box plus a 200sqm of additional retail late 2010, subject to equity and debt funding being available.

We have been approached by a local group, about the possible sale of the combined shopping centre and adjoining land, but to achieve a fair price for unit holders, this is not viable till after settlement of the land and DA Consent Approvals released. Toowoomba and surrounding regions have remained firm during the Global Financial Crisis, and the outlook remains positive moving forward into 2010.

### **Hervey Bay Property**

The major property comprising 3 retail/commercial shop fronts remains fully leased, with a Pet Centre taking over Shop 1, 31 Main Street. We are continuing recovery action against the old Shop 1 Cycle World tenant, but it is likely they will go bankrupt. Shop 2 lease is expired and tenant is now on a monthly tenancy. The anchor tenant (shops 3 & 4) Suncare Community Services Inc is happy, with lease running till March 2011.

This corner site at 37 Main St, is occupied by Stegbar Doors & Windows as a display centre. The buildings are older style, but have great exposure including large signage as required by this national tenant. The lease is a 3+3+3 years, with the first term running till March 2012.

Our current lender has completed its review process and has indicated that the fund has met all criteria and review is finalized. The fixed rate term has still 1 year to run.

These sites are part of the Pialba Town Civic Centre redevelopment precinct. Due to council amalgamations and funding uncertainties, the redevelopment is unlikely to occur for several years. Confidence in the direct area remains strong, indicated by the adjoining shopping centre recently

completing and leasing a major expansion, including a new K-Mart and other specialty stores, along with an overall centre refurbishment. Several other developments are also occurring near by.

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

No changes since last report, recapping GCAL has been under pressure re airside activities which is getting priority over non-core works. The terminal expansion and redevelopment is progressing well and expected to be completed mid 2010. The Southern Cross University Campus (Stage 1) construction is complete with the first students expected in February 2010. Stage 2 Building Construction is due to commence before Christmas.

The formalising of documentation for the Land Leases seems to be slowly progressing, with a likely outcome in early 2010. As previously mentioned discussions are taking place with potential joint venture partners, to ensure adequate capital is available to deliver the development schedule as required by GCAL. The intention of the partner is to not only provide Equity Capital, but also initial loan capital and big scale project management skills.