Core Property
Fund Research & Ratings
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# Unlisted Property Trust Report

# Elanor Clifford Gardens Fund

April 2021

Sub-regional shopping centre with Core-Plus strategy targeting 8.2%+ distributions

for sophisticated and wholesale investors only

# Elanor Clifford Gardens Fund

## Contents



# 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

# Elanor Clifford Gardens Fund

April 2021

The Elanor Clifford Gardens Fund ("The Fund") is an unlisted property fund that has acquired the Clifford Gardens Shopping Centre, located in Toowoomba QLD ("the Property"). The Investment Manager, Elanor Funds Management Limited ("the Manager") is a subsidiary of Elanor Investors Group (ASX: ENN), an established Australian real estate fund manager with $1.9B of funds under management. The Manager currently has over $700M of retail properties under management with a recent history in delivering successful repositioning strategies of sub-regional shopping centres.

The Fund has been established with 90.3M units priced at $1.00 per unit. A global institutional investor will acquire 45.1M units (or 49.9% of the units) with the remaining 45.2M units (or 50.1%) being offered to investors ("the Offer"). The Offer is available to Wholesale and Sophisticated Investors only, under the terms of the Information Memorandum.

The Property is a sub-regional shopping centre situated on a 9-hectare site in the heart of the Toowoomba CBD, QLD. The centre has 27,651 sqm of net lettable area (NLA) and is anchored by two full-line supermarkets (Woolworths and Coles) and a strong trading Big W discount department store with 89 specialty tenants and 1,442 on site car spaces and 158 off site car spaces. The Property metrics include: (1) annual sales of over $160M across the centre; (2), occupancy of 96.2% which is below historical levels of 99-100%, with occupancy impacted by COVID-19; (3) a Weighted Average Lease Expiry (WALE) of 3.9 years.

The Manager is planning to reposition the centre with a comprehensive strategy that includes the remixing of tenancies to non-discretionary uses, restoring occupancy to the centre's historical average of 99%+ as well as the establishment of two fast-food outlets in the car park, and the sale of the peripheral, non-core car park site.

The Manager intends to establish a four-year debt facility with an initial Loan to Valuation Ratio (LVR) of 50% against an expected LVR covenant of 55%. The Manager intends to draw an additional $9.3M in debt, and use $5M of cash reserves to fund the repositioning strategy. The LVR is targeted to remain at or below 50% as the Manager intends that debt is supported by valuation increases from additional earnings.

The Fund has an estimated term of five-years to May 2026, subject to the discretion of the Manager. Core Property expects the Manager seeks to have a fund term that maximises value for investors, which is likely to take into account its repositioning strategy as well as addressing anchor tenant expiries in 2027-2030.

The Fund will have an initial NTA of $0.865 per unit with most of the dilution coming from stamp duty and upfront costs to establish the Fund. Core Property considers the fees charged by the Fund to be low when compared to the expected returns of the Fund (see *Figure 6: Fees in Perspective*).

The Manager is forecasting relatively attractive distributions, given the current market, with distribution yields over 5-years ranging between 8.2% - 12.1% p.a. (average 5-year distribution yield of 10% p.a.). The distributions are underpinned by contracted rent income and reletting assumptions on vacant space that are in line with market assumptions.

Core Property estimates the Fund to deliver a pre-tax Internal Rate of Return (IRR) of 10.9% - 12.7% p.a. based on a +/- 25bps movement in capitalisation rates to 7.00% - 7.50%. We note the Manager is estimating an IRR of 14.6% p.a. based on a terminal capitalisation rate of 6.75% assuming the successful execution of its repositioning strategy (see *Expected Future Performance (IRR Sensitivity))*.

**Investor suitability**

Core Property considers the Fund will appeal to investors who seek an attractive distribution with the potential for a higher return. Downside risks to a degree are mitigated by the attractive acquisition price, whilst the Manager undertakes its value-add strategy. Investors should note the value-add scenario is based on several assumptions which may or may not eventuate and a return outside this range may also be achieved. Investors should be comfortable to invest alongside a major global institutional investor, as the Fund is the majority investor. The Fund should be considered as part of a Core-Plus investment strategy. Investors should expect to be invested for a minimum five-year period, subject to the Manager's discretion and execution of its strategy.

## Recommended

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: | 1 April 2021 |
| Offer Close: | 10 May 2021[1] |
| Minimum Investment: | Open |
| Unit Entry Price: | $1.00 per unit |
| Net Tangible Assets: | $0.865 per unit |
| Liquidity: | Illiquid |
| Forecast Distributions: | Year 1: 8.2 cpu<br>Year 2: 12.1 cpu<br>(incl est. 3.2cpu capital return) |
| Distribution Frequency: | Quarterly |
| Initial Investment Period: | 5.0 years to May 2026 (approximately)[2] |

1. The Manager may close the Offer at any time when sufficient commitments have been received.
2. The Fund has an investment horizon of approximately five years, or more, subject to the Manager's discretion.

## Fund Contact Details

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## Manager - Website

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Note: This report is based on the Elanor Clifford Gardens Information Memorandum dated 1 April 2021, together with other information provided by Elanor Investors Group.

## Key Considerations

**Management:** The Trustee and Manager, Elanor Funds Management Limited, is a wholly owned subsidiary of Elanor Investors Group (ASX: ENN), an ASX-listed fund manager established in 2014 with $1.9 billion of assets under management. The Manager has advised that it has realised a total of 13 unlisted property funds, delivering an average IRR to investors of 19.7% p.a. (range 7.7% - 46.4% p.a.), with an average IRR of 24% p.a. on retail properties.

**Fund Structure:** The Fund will issue 90.3M units at $1.00 per unit. The Manager has secured a cornerstone investment from a major global institutional investor for 49.9% of the units, with the remaining 50.1% (or 45.2M units) to be offered to sophisticated and wholesale investors under the terms of the Information Memorandum.

**The Property:** Clifford Gardens Shopping Centre is as sub-regional shopping centre located in the heart of the Toowoomba CBD on a 9-hectare site. The Property provides 27,651 sqm of net lettable area (NLA) with 1,422 on site car parking bays and a 158-bay overflow car park. Originally built in 1983, the Centre has undergone several major refurbishments, 1992, 2001 and 2009. The centre is anchored by two supermarkets (Woolworths and Coles), a discount department store (Big W), two Mini Majors and a further 88 specialty tenants. The centre has traditionally had strong occupancy levels of 99-100% (through 2001-2016), which has reduced to 96.2%, impacted by the COVID-19 pandemic.

**Fund Strategy:** The Manager plans to undertake a significant asset repositioning strategy to enhance the value of the Property, which includes: (1) Reweighting the tenancies to essential service and health care offerings, including an additional 1,000 sqm of healthcare tenancies; (2) Transforming under-utilised areas of the centre's car park into income producing, fast food development pad sites; and (3) Divesting the non-core overflow car park. The successful execution of the strategy is intended to transform the Property into an ultra-convenient sub regional shopping centre with an enhanced tenancy profile focused on non-discretionary and essential spending.

**Acquisition Price:** The Property is being acquired for $145.0M, which compares well to the prior sale of $188.5M in May 2016 and well below the Property's replacement cost of $171M.

**Debt Profile:** The Manager has obtained indicative terms for a four-year $77.5M debt facility from a major global bank to facilitate the purchase of the Property. The Fund will draw down $72.5M of the facility to fund the acquisition, with the remaining $5.0M intending to be utilised to support the repositioning strategy. The facility has an all-in cost of ~2.4% p.a., with an initial Loan to Value (LVR) ratio of 50% below the LVR covenant of 55%, and an Interest Cover Ratio (ICR) of 5.4x with an ICR covenant of 2.0x.

**Distributions:** The Manager is forecasting a distribution of 8.2cpu in year 1, with a forecast 5-year average distribution of 10.0cpu. Distributions are paid on a quarterly basis.

**Fee Structure:** Core Property considers the Fund's fees to be low when compared to what has been seen in the market. (see *Figure 6: Fees in Perspective*).

**Total return profile:** Core Property estimates the Fund to deliver a pre-tax equity IRR of between 10.9% - 12.7% p.a. (midpoint 11.9% p.a.), based on a +/- 25 bps movement in capitalisation rates (see *Financial Analysis* section). The Manager has forecast higher IRRs of 12.7% - 16.3% p.a. on the basis of the strategy delivering up to -75bps movement in capitalisation rates as well as more beneficial leasing outcomes. Core Property estimates the forecast IRRs to include a +2.7% - 3.1% p.a. benefit from the Manager's repositioning strategy. Investors should also be aware that the Property's leasing profile, the Manager's repositioning strategy and market conditions may deliver an IRR outside of the estimated range provided.

**Illiquid investment:** Investors should be aware that by their nature, unlisted property funds are illiquid. The Fund has an expected investment horizon of five-years however this is subject to the Manager's discretion and the successful execution of the repositioning strategy.

### Investment Scorecard

| Investment Scorecard | |
|---|---|
| Management Quality | ★★★★☆ |
| Governance | ★★★★☆ |
| Asset Quality | ★★★★☆ |
| Income Return | ★★★★☆ |
| Total Return | ★★★★☆ |
| Gearing | ★★★☆☆ |
| Liquidity | ★☆☆☆☆ |
| Fees | ★★★☆☆ |

## Key Metrics

| Trust Structure | |
|---|---|
| A closed-ended single asset unlisted property fund investing in a sub-regional shopping centre located in Toowoomba QLD. The Fund is an unregistered managed investment scheme managed by Elanor Funds Management Limited, a subsidiary of Elanor Investors Group (ASX: ENN). | |

| Management | |
|---|---|
| Elanor Investors Group (ASX: ENN) is an investment and funds management business with a strong focus on acquiring and unlocking value in assets that provide strong income and capital growth. | |

| Property Portfolio | |
|---|---|
| No. of Properties: | 1 |
| Property Location: | Clifford Gardens Shopping Centre, 100-124 Anzac Avenue & 1-11 Princess Street, Toowoomba QLD |
| Acquisition Price: | $145.0M |
| Property Valuation: | $145.0M |
| Property Sector: | Retail |
| Key Tenants: | Big W, Coles, Woolworths |
| Occupancy: | 96.21% |
| WALE: | 3.9 years (by income) |

| Return Profile | |
|---|---|
| Forecast Distribution: | Year 1: 8.2%<br>Year 2: 12.1% |
| Distribution Frequency: | Quarterly |
| Tax advantage: | TBA |
| Estimated Levered IRR (pre-tax, net of fees): | 10.9% - 12.7% p.a. (based on 7.00 - 7.50% capitalisation rate with repositioning strategy)<br><br>14.6% p.a. (Manager assumptions based on a 6.75% capitalisation rate) |
| Investment Period: | 5 years to May 2026 |

| Risk Profile | |
|---|---|
| Property/Market Risk: | Investors will be exposed to a potential capital gain or loss, based on market conditions. |
| Trust Investment Risk: | Illiquid nature of the Trust, gearing and interest rate risk |
| Development Risk: | No Development Application has been approved by the Toowoomba Regional Council for the proposed value add developments |
| Tenant Risk: | The Property has a number of substantial lease expiries within its initial term and beyond, which may impact the earnings and valuation of the Property. |
| For a more detailed list of the key risks, refer to "Section 10: Investment Considerations and Risk factors" of the Information Memorandum. | |

| Fees Paid | |
|---|---|
| Entry Fees: | Nil |
| Exit Fees: | Nil |
| Establishment Fee (Property Acquisition Fee): | 2.0% of purchase price, paid once on settlement of the Property. |
| Equity Raising Fee | 1.0% of equity raised (on Fund share). Paid once only from the Funds' assets on settlement of the Property |
| Management Fees: | Management Fee: 1.0% p.a. of the Fund's Gross Asset Value (GAV), paid monthly. |
| Performance Fee: | 20% of the outperformance over an IRR of 12.0% p.a. |

| Debt Metrics | |
|---|---|
| Drawn Debt / Facility Limit: | $72.5M / $77.5M |
| Loan Period: | 4 years |
| Initial LVR / LVR Covenant: | 50% / 55% |
| ICR / ICR Covenant: | 5.4x / 2.0x |

| Legal | |
|---|---|
| Offer Document: | Elanor Clifford Gardens Fund Information Memorandum, dated 1 April 2021 |
| Wrapper: | Unlisted Property Trust |
| Custodian: | Elanor Funds Management Limited (ABN 39 125 903 301, AFSL No.398196) |
| Responsible Entity, Trustee & Manager: | Elanor Funds Management Limited (ABN 39 125 903 301 |

# Fund Overview

The Fund is a closed-ended, unlisted property fund that invests in the Clifford Gardens Shopping Centre in Toowoomba QLD ("the Property"). The Fund is managed by Elanor Funds Management Limited ("the Manager") which is a wholly owned subsidiary of Elanor Investors Group (ASX: ENN), an ASX-listed real estate fund manager established in 2014.

The Manager is seeking to raise $90.3M through the issuance of 90.3M units at an issue price of $1.00 per unit. The funds will be used on conjunction with debt, to acquire the Property for $145.0M plus costs. The Manager has secured a cornerstone investor which will acquire 49.9% of the units in the Fund. The remaining 50.1%, or 45.2M units ("the Offer") will be made available to Wholesale or Sophisticated investors only, under the terms of the Information Memorandum.

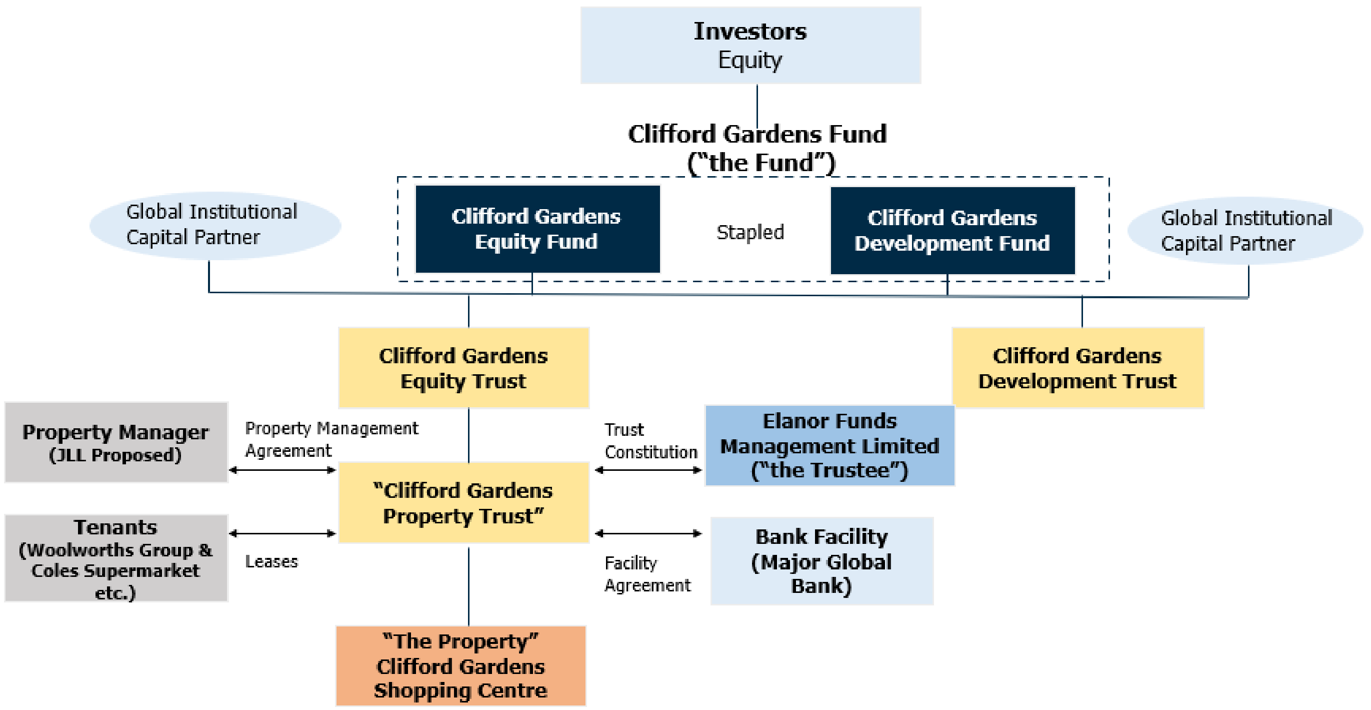
The Fund is a stapled entity which consists of a property trust (the Property Clifford Gardens Equity Trust) and a development trust (the Clifford Gardens Development Trust). The structure allows the development trust to undertake certain development work and divestment in a separate tax effective structure.

The Clifford Gardens Shopping Centre, Toowoomba QLD is a 9-hectare, strong tenanted retail shopping Centre located in the heart of the Toowoomba CBD on the corner of the Warrego Highway and Anzac Parade. Originally built in 1982, the Centre has undergone refurbishment in 1992, 2001 and 2009. The property comprises 27,651 sqm of NLA, with 1,422 on site car parking bays and a further 158 car spaces on a 6,680 sqm site located to the east of the Centre. The Centre is anchored by dual supermarkets Woolworths (10% of gross income) and Coles (6.5% of gross income), as well as Discount Department Store Big W (14.3% of gross income) and includes 89 other specialty tenants such as McDonald's, Commonwealth Bank and Australia Post. No anchor tenants lease expiry falls due before May 2027, and the Property holds a WALE of 3.9 years by income.

The Manager plans to undertake an extensive repositioning of the Property to unlock the underlying value for investors. Occupancy levels are currently 96.2% and the Manager is looking to restore this to historical levels of 99%+. The repositioning strategy involves a remixing of tenancies with a weighting towards non-discretionary users, including an expanded health offering, the establishment of two new fast food outlets on under-utilised areas in the car park as well as the divestment of the peripheral, non-core car park.

The Fund has an estimated investment horizon of five-years however this is subject to the Manager's discretion based on the delivery of the strategy and market conditions.

Figure 1: Fund structure




Source: Elanor

## Fund strategy

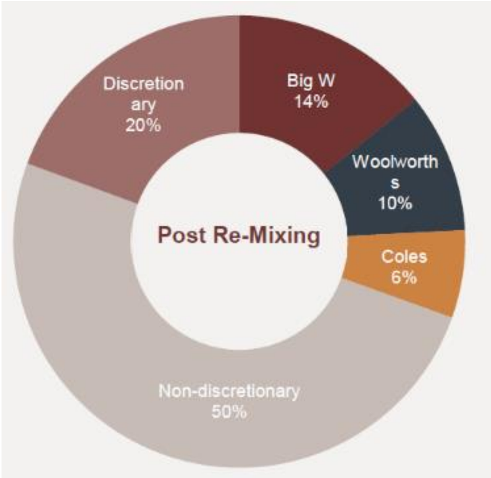
The strategy of the Fund is to provide investors with a high yielding quality investment, while actively managing the Centre to unlock its value-add potential through remixing the tenancies as well as development and divestment plans. The strategy has three key components:

1) **Essential Services Tenancy Repositioning -** The Manager intends to de risk the centre from higher occupancy cost retailers and improve the centres performance by remixing tenancies to introduce more essential service and non-discretionary businesses. The repositioning strategy includes:
   - As part of the remixing strategy, stronger performing tenants of the Centre will be relocated (and/or expanded) to provide greater exposure within the Centre to further improve their performance.
   - The introduction of an additional 1,000 sqm of health tenancies, located below the Coles supermarket in the current under-utilised undercover carpark. The Manager has indicated the space will include a 750 sqm radiology clinic, with discussions currently underway with a potential tenant, as well as 250 sqm allocated for allied health tenancies.
   - The Manager also plans to secure the long-term security of Woolworths and Coles by undertaking investigations to implement 'Click n Collect' facilities, ensuring the Centre meets the demands of the anchor tenants in the future, as well as improving the Centres accessibility and performance.
   - New entrance points will be introduced at the centre to provide access at the food court as well as a new expanded entrance for the Coles supermarket.

2) **Divestment of the Non-Core Car Park -** The Property includes a 6,680 sqm located to the east of the shopping centre which is considered to be a non-core car park used for peak trading parking. This land holds little use remaining in its current position due to the 250-metre walking distance to the nearest centre entry and with a gym being situated in between. The site does however provide strong location fundamentals with three street frontages and close proximity to a recently upgraded local school. Under the Toowoomba Regional Council Plan, the zoning allows for a floor ratio of 2:1 and a maximum height of six storeys. The local Toowoomba housing market has experienced strong growth over the last 10 years with median house prices growing 2.4% p.a.. With strong housing demand the Manager intends to realise the potential of this land through the obtaining of Development Approval (DA) for the land, with the potential to sell the land in two years.

3) **Development of Fast-Food Sites** – The Manager has identified an opportunity to transform two underutilised areas in the car park which may be developed into two freestanding, income producing fast food outlets. The site's strong exposure to high volumes of passing traffic from the Warrego Highway and Anzac Avenue, combined with an under representation of freestanding fast food sites within 3km, provides an opportunity to establish new outlets including KFC, Pizza Hut and Hungry Jacks. The potential development of these stores aims to supplement and improve the overall food offering available at the Property, while attracting greater foot traffic to the centre.

Figure 2: Fund strategy and tenant composition post re-mixing


Source: Elanor

## Cornerstone Investor

The Fund has secured a cornerstone investor to acquire 49.9% of the units in the Fund. The Manager has confirmed that the global institutional investor will own units which will participate equally with other investors in the income of the Fund. The major institutional investors will have a different management fee structure to the Fund.

Investors should be comfortable the Fund will own 50.1% majority voting rights alongside the global institutional investor's 49.9% share.

## Liquidity / exit strategy

Investors should view the Fund as illiquid and long term in nature, with an expected investment horizon of five years.

The Manager has discretion to extend or reduce the term of the Fund if it considers it to be in the best interests of unitholders. Investors should note that liquidity in the Fund is intended to be provided by way of the sale of the Property, which is subject to the successful delivery of the Manager's repositioning strategy as well as market conditions.

## Sources & Application of funds

The following table sets out the initial sources and application of funds as presented in the IM.

Figure 3: Sources and Application of Funds – 100% basis

| | $M | % of portfolio purchase price | % of total funds |
|---|---|---|---|
| **Sources of funds** | | | |
| Equity subscriptions | $90.3M | 62.3% | 55.5% |
| Bank debt | $72.5M | 50.0% | 44.5% |
| **Total sources of funds** | **$162.8M** | **112.3%** | **100.0%** |
| **Application of funds** | | | |
| Purchase price | $145.0M | 100.0% | 89.1% |
| Acquisition Costs | $8.3M | 5.7% | 5.1% |
| Debt & Fund Establishment Costs | $1.0M | 0.7% | 0.6% |
| Managers Fee | $2.9M | 2.0% | 1.8% |
| Working Capital | $5.6M | 3.9% | 3.4% |
| **Total application of funds** | **$162.8M** | **112.3%** | **100.0%** |

Source: Elanor, Core Property

## Debt Facility & Metrics

The Manager has obtained indicative terms for a $77.5M debt facility from a major global bank to facilitate the purchase of the Property. Initially the Fund will draw down $72.5M to fund the acquisition, with an estimated all-in-cost of approximately 2.40% p.a.

- The debt facility will have an initial Loan to Valuation (LVR) ratio of 50%, against an LVR covenant of 55%. Core Property estimates that the value of the Funds property must fall by 9.1% in order to breach the LVR covenant.
- The initial Interest Coverage Ratio (ICR) is calculated to be 5.4x, with an ICR covenant of 2.0x. Core Property calculates that net passing income must decline by 62.8% for the ICR covenant to be breached.

The debt facility is for four years and will need to be extended or replaced to cover the initial five-year term of the Fund.

The Manager's has estimated around $14.3M of capital expenditure requirements to support the Fund's strategy. This is expected to be funded by existing cash reserves of $5.0M, plus a draw down the $5M available on the debt facility, as well as undertake a further $4.3M of debt, subject to accretive capital project outcomes.

Figure 4: Debt Metrics – indicative

| Details | Metric |
|---|---|
| Bank | Major Global Bank |
| Security | First mortgage over the Property with a charge over the assets of the Fund. |
| Debt Facility Limit | $77.5M |
| Drawn Debt | $72.5M |
| Initial Loan Period | 4 Years |
| Effective Interest Rate | Approximately 2.40% |
| Fixed/Hedged | Nil initially, the Manager may, in the future, choose to hedge or fix a portion of the debt. |
| Initial LVR | 50% |
| LVR Covenant | 55% |
| Interest cover ratio / bank covenant | 5.4x / 2.0x |
| Amount by which valuation of properties will have to fall to breach LVR covenant | 9.1% |
| Amount by which income will have to fall to breach ICR covenant | 62.8% |

Source: Core Property, Elanor

## Fees Charged by the Fund

A summary of fees charged by the Fund is provided in the table below. Core Property notes:

- The Fund charges Management Fees based on 1.0% of the Gross Asset Value (GAV) of the Fund. Core Property considers this to be at the high end of what we have typically seen in the market (0.7% - 1.1% of GAV) and reflective of the repositioning strategy being deployed at the Property.
- The Fund charges a 1.0% equity raising fee on the amount of equity raised for the Wholesale component of the Fund (being the 50.1% of units under the Offer). The Fund may charge a separate Fee for the cornerstone investor's component. Core Property notes that an equity raising fee is not uncommon for similar funds in the market.
- The Performance Fee is 20% of the Fund's performance above an IRR of 12%. Core Property considers the hurdle rate of 12% to be attractive for investors as it provides a strong a strong incentive for the Manager to deliver higher returns for investors.

Figure 5: Summary of Fees charged by the Fund

| Fee Type | Fee Charged | Core Property Comment |
|---|---|---|
| Entry/Establishment Fee | Nil | |
| Exit/Withdrawal Fee | Nil | |
| Equity Raising Fee | 1.0% of the Wholesale Capital Fund equity raised | The Fee is based on the capital raised for the Wholesale capital component of the Fund (50.1%). A separate Fee may be payable by the cornerstone component (49.9%). |
| Arrangement and Acquisition Fee | 2.0% of the purchase price of the Property. | The Acquisition Fee is at the high end of the industry average of 1.5% - 2.0%, which is reflective of the acquisition being undertaken off-market and with a cornerstone global institutional investor. |
| Property Disposal Fee | Nil | No Disposal Fee is charged by the Fund. The Fund may however incur an agent's fee if an external agent is appointed to sell the property. |
| Management Fee | 1.0% p.a. of the Gross Asset Value (GAV) of the Fund. | The Management Fee is towards the higher end of the industry (0.7% - 1.1% p.a. of GAV). Core Property considers this to be reflective of the costs associated with the repositioning strategy at the Property. The Fee is paid monthly out of the assets of the Fund. |
| Leasing Fee | 15.0% of year 1 gross rents post execution of leases | Core Property considers the fee to be in line with market practice. |
| Development management fee | 8.0% of Capital Expenditure | Core Property considers the Fee to be at the high end of what it has seen, which is reflective of the repositioning strategy planned at the Property. |
| Performance Fee | 20% (excl. GST) of the Fund's performance above an IRR of 12.0% p.a. after fees and costs. | The benchmark hurdle is higher than current market expectations. Core Property considers this to be advantageous for investors as it provides a stronger incentive for the Manager to deliver higher returns for investors. |

Source: Elanor, Core Property

## All-in fee analysis

In the table below, Core Property analyses how much of the Fund's cash goes to Manager fees, and how much is left over for investors as a percentage of the total Fund cash flow.

Core Property estimates the Manager is entitled to 6.9% of the total cash flow. Core Property considers this to be at the low end of the range when compared to similar products, which are typically around 7% - 9%. In terms of fees paid to the Manager, Core Property estimates 27.3% of the estimate fee is paid upfront and the remainder relates to ongoing management fees. Core Property stresses that these estimates of how much investors will receive are not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 6: Fees in Perspective – based on an initial 5-year Fund term

| Core Property estimates that for every $1.00 of equity invested the Fund can return: | Amount per $1.00 unit |
|---|---|
| Principal repayment to investors: | $1.00 |
| Income and capital gains to investors: | $0.60 |
| **Total cash to investors:** | **$1.60** |
| Acquisition fee: | $0.03 |
| Disposal fee: | $0.00 |
| Base management fee: | $0.09 |
| | |
| **Fees for the Manager (excluding admin costs)** | **$0.12** |
| **Total cash generated by the Fund** | **$1.71** |
| Fees = % of total cash generated (before fees) | 6.9% |
| Up-front fee vs total fees | 27.3% |

Source: Core Property

# The Property

Clifford Gardens Shopping Centre, Toowoomba QLD is situated on a 9-hectare site on the corner of Anzac Ave and Warrego Highway (James Street). The site comprises 27,651 sqm of NLA, with 1,442 on site car parking bays and an additional 158 car spaces in a peripheral non-core car park. Originally constructed in 1982, the Centre has undergone several refurbishments beginning in 1992 and carrying on in 2001 and 2009. The Centre is anchored by two supermarkets (Woolworths and Coles), a Discount Department Store (Big W), two Mini Majors (Terry White Chemmart and Best & Less), 88 specialty tenants, 6 kiosks and 1 ATM.

Located in the heart of the Toowoomba CBD, the Property has a strong exposure to the Warrego Highway (James Street), with ~20,500 passengers/13,500+ cars passing by daily. The Centre is also close to local infrastructure generators such as Harrison State High School and the Toowoomba Hospital. Toowoomba is the second largest inland city in Australia, with an average population growth of 3.6% p.a. over the past 10 years and is set to experience further economic growth off the back of recently completed infrastructure projects, as well as further planned government and private infrastructure investment.

The centre has an occupancy of 96.2% (by NLA) with a WALE of 3.9 years (by income). The Fund is looking to acquire the Property for $145.0M with settlement expected on 31 May 2021. The Property (including the non-core car park) is zoned as a Major Centre under the Toowoomba Regional Council Planning Scheme which allows significant potential to accommodate complementary alternative uses.

Figure 7: Clifford Gardens Shopping Centre, Toowoomba QLD


Source: Elanor, CBRE, Clifford Gardens

## Property Valuation

An independent valuation was undertaken by CBRE in February 2021 valuing the Property at $145.0M, in line with the acquisition price. A summary of the valuation metrics is provided below.

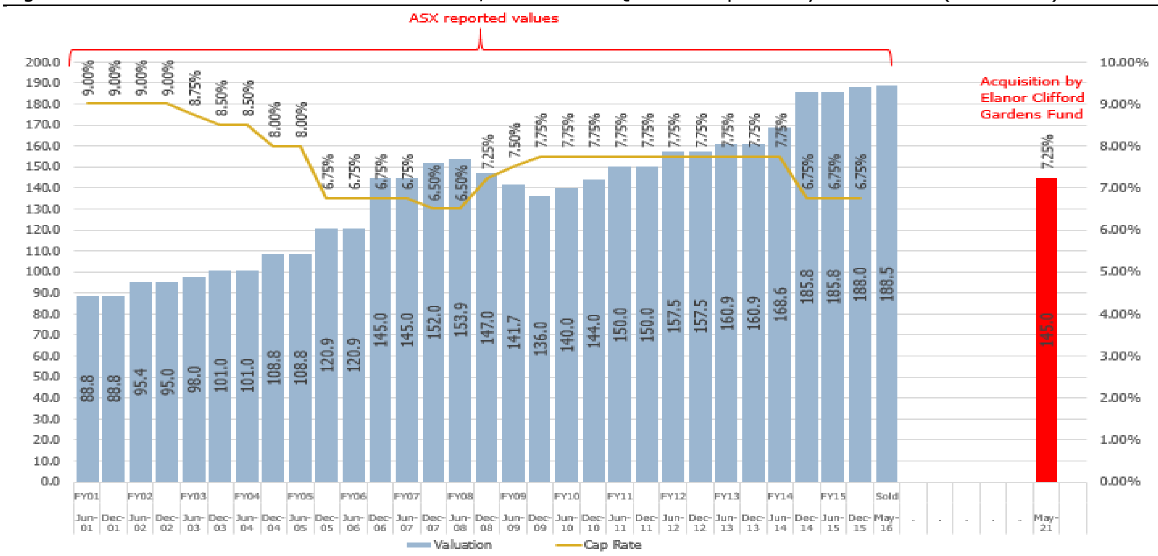
Figure 8: Valuation Metrics

| | Clifford Gardens Shopping Centre - 98 Anzac Avenue, Toowoomba QLD |
|---|---|
| **Title** | Freehold |
| **Acquisition date:** | 31 May 2021 (expected) |
| **Ownership** | 100% |
| **Site Area** | 90,729 sqm |
| **Gross Lettable Area** | 27,651 sqm |
| **Major Tenant (% NLA)** | Big W (29.6%), Woolworths (16.5%), Coles (14.4%) |
| **Weighted Average Lease Expiry (by income)** | 3.9 years |
| **Occupancy** | 96.2% |
| **Initial net passing income** | $11.97M |
| **Net Market income (fully leased)** | $12.81M |
| **Purchase price** | $145.0M |
| **Valuation** | $145.0M |
| **Passing initial yield** | 8.25% |
| **Capitalisation rate** | 7.25% |
| **Valuer** | CBRE |
| **Valuation Date** | Feb 2021 |
| **Valuer's Discount rate / Terminal yield** | 7.75% / 7.50% |
| **Value/sqm** | $5,229 |
| **Valuer's unleveraged 10-year IRR** | 7.75% |

Source: CBRE

**Historical Valuation -** The Property was constructed in 1983. In October 2002 the Property was owned by the Colonial First State Retail Property Trust (ASX: CRT) when the Trust was acquired by the CFS Gandel Retail Trust (ASX: GAN). The Property has been owned by various ASX-listed entities as a result of name changes and mergers, including the CFS Retail Property Trust (ASX: CFX), Federation Centres (ASX: FDC) and Vicinity Centres (ASX: VCX). In May 2016 Vicinity Centres sold the Property for $188.5M. The following is a summary of the ASX reported values between 2001 – 2016, showing reported book valuations and capitalisation rates. Core Property notes the ASX reported occupancy levels between 2001-2016 have been between 99% - 100% (average 99.8%).

Figure 9: Historical Book Value of Clifford Gardens, Toowoomba QLD – as reported by ASX entities (2001-2016)




Source: ASX announcements

## Retail Metrics

**Location:** Toowoomba is located roughly 125 km west of the Brisbane CBD and is ranked second as Australia's largest inland city. Toowoomba has an estimated population of 149,512 (2016 Census) and governed by the Toowoomba Regional Council. The largest employment sectors are Professionals (19.6%), Technicians and Trades Workers (15.1%), Clerical and Administrative Workers (13.7%) and Laborer's (12.1%).

**Retail spending:** Core Property has reviewed the Toowoomba Regional Council in comparison to Brisbane, QLD and Australia, while also analysing key retail statistics within a 3 km radius of the site in relation to the rest of QLD. Some of the key findings are summarised below.

- Toowoomba median household income levels are below median levels in Brisbane, QLD and Australia. Weekly median personal income levels within a 3km radius of the site are also below that of the rest of QLD.
- Unemployment levels are 8.7% within a 3km radius, which is higher than the 6.1% reported for the rest of QLD.
- Food and Groceries, Meals out, Clothing and Footwear and Households Goods and Furnishings expenditure is below the average of QLD. While total online retail is greater than the rest of QLD.

2018 demographic data suggests overall, the surrounding 3 km radius of the site experienced lower expenditure during 2018. While median household and personal income was below the rest of QLD.

Figure 10: Trade analysis of the Fund's asset

| 2016 census date | Toowoomba | Brisbane | QLD | Australia |
|---|---|---|---|---|
| People | **149,512** | 2,270,800 | 4,703,193 | 23,401,892 |
| Median Household Weekly Income | **$1,298** | $1,562 | $1,402 | $1,734 |
| Average Household size (persons) | **2.5** | 2.7 | 2.6 | 2.6 |

Source: ABS

Figure 11: Demographic analysis

| 2018 Demographics | 3 km radius | Rest of QLD |
|---|---|---|
| Median Weekly Personal Income | **$597** | $625 |
| Unemployment | **8.7%** | 6.1% |
| Food and Groceries | **$3,391** | $4,162 |
| Meals out | **$1,316** | $1,364 |
| Clothing and Footwear | **$873** | $922 |
| Households Goods and Furnishings | **$1,784** | $1,864 |
| Total online retail | **$851** | $792 |

Source: CBRE

**Health and Wellbeing**

Over the past 10 years the health care, medical and wellbeing industry has been the second fastest growing industry in the Toowoomba Region, growing $484M. In 2019, the industry within the region contributed $1.1B to Gross Regional Product and was the second largest industry by value add, accounting for 9.9%. The Toowoomba Region plays an important role as the service hub for Darling Downs, particularly as a health and wellbeing service provider, with the Health Care and Social Assistance Industry representing 15.9% of employment within the area, materially above 13.5% in QLD. The region is home to eight hospitals, including three major regional facilities. With an ageing population expected to increase by approximately 20,000 between 2016 and 2041 in the Toowoomba Region, the demand for health and wellbeing services are expected to increase.

**Investment projects**

Significant public and private infrastructure investments in the Toowoomba and Darling Downs region are expected to improve the performance of Clifford Gardens. Some key projects that will have a material economic impact upon the Toowoomba economy include:

- Ballie Henderson Hospital Site Health Precinct, estimated at a cost of $750M, increasing hospital capacity to support the forecast population growth within the region.

- Inland Rail, allowing freight delivery from Melbourne to Brisbane in less than 24 hours, will drastically improve capacity and demand for distribution hubs to open in regional cities such as Toowoomba.
- Wellcamp Airport, a $200M international jet-capable airport for regular passenger services, charter flights, fly in fly out and freight services.
- Toowoomba Bypass, a 41km road project linking Brisbane, Darling Downs, and the Surat basin freight network ($1.6B est cost).
- Warrego Highway Upgrade, a $400M investment reducing future congestion and improving times between Brisbane and Toowoomba.

**Competition**

Clifford Gardens is the second largest retail Centre within the Toowoomba market and is one of two sub regional shopping centres within the greater Toowoomba region. Clifford Gardens faces two categories of competitors, 1) Higher order competition provided by regional and sub regional centres such as Grand Central, Wilsonton Shopping Centre and Toowoomba Kmart Plaza. 2) Supermarket competition provided from various neighbourhood centres within the surrounding area.

Currently, there are no new proposals for retail development in the Primary Trade Area. However, there are 3 small, proposed developments within the Main Trade Area. These developments are not expected to have a material impact on the Property, namely the Bernoth Centre (3.5 km from site) and the Charlton Shopping Centre (12km from site, less than 1,500 sqm GLA developments without supermarkets) and a new Aldi store in Plainland (53 km east of Clifford Gardens).

A new full line Coles supermarket of 3,815 sqm opened in June 2020 at Glenvale, approximately 2km to the west of the Property, which has impacted supermarket sales at the Property.

The largest competing shopping centres are Grand Central, Wilsonton Shopping Centre and Toowoomba Plaza, which is summarised in the table below.

Figure 12: Competition analysis

| Competition | Distance from subject | Lettable Area | Summary |
|---|---|---|---|
| Grand Central | 2km NE | 90,837 | Regional shopping centre with 4 levels of retail anchored by Myer, Target, Big W, Coles, Woolworths and 312 specialties. The centre expanded to 90,000 sqm in 2016/17 and is the largest shopping centre within Toowoomba. |
| Wilsonton Shopping Centre | 2.5km NW | 18,259 | Sub-Regional Centre with Woolworths, Coles and 84 specialties. A comprehensive refurbishment and reconfiguration project is currently underway revitalising the existing Woolworths centre with various tenancy areas and construction to improve pedestrian connectivity between Coles and Woolworths. |
| Toowoomba Plaza | 4km SE | 13,103 | Sub-Regional Centre with Kmart, Coles and 35 specialties |

Source: Core Property, CBRE

## Leases, tenants, and income

The Centre holds a defensive tenancy mix heavily weighted towards anchor tenants and non-discretionary retailers which account for 75% of income, including Big W (14% of income), Coles (10% of income), Woolworths (6% of income) and non-discretionary specialty stores (45% of income). Occupancy is 96.2% with a WALE of 3.9 years by income and average occupancy cost of 13.8% across specialty tenants. A summary of the key tenancies is provided below:

- **Big W** (8,186 sqm or 26.9% of NLA) is a leading Australian Discount Department Store (DDS) founded in regional NSW in 1964 and owned by Woolworths Limited (ASX: WOW). Big W's current 20-year lease commenced in July 2010, expiring in July 2030, with a 10-year option to extend. The lease is based on a base rent plus percentage rent (4% of gross sales above $55.5M, 3.5% above $60.5M, and 3% above $65.5M, less the initial base rent and outgoings payable for the relevant lease year. Big W's turnover has increased a strong 17.1% in the 12 months to January 2021, to $32.6M, benefitting from increased spending during the COVID-19 period.
- **Woolworths** (ASX: WOW) holds 4,560 sqm (or 16.5%) of the Centre's NLA. Established in 1904, Woolworths is a leading Australian supermarket chain with over 950 stores across Australia and has grown to become one of the most recognisable businesses domestically. Woolworths commenced their 20-year lease in Aug 2009, with expiry falling due in August 29 with option periods of 5 + 5 years thereafter. The Woolworths supermarket lease is structured as a percentage rent basis at 2.5% of gross sales up to $66.0M, plus 2.25% of gross sales between $66.0M - $71.0M, plus 2% of gross sales in excess of $71.0M. The sum of these calculations is then deducted from the initial base rental and any increases in outgoing expenses payable during the relevant lease year. The Woolworths supermarket turnover was -7.6% for the 12 months to January 2021, at $39.3M, with the lower sales attributable to the June 2020 opening of a standalone Coles supermarket at Glenvale, 2km from the Centre.
- **Coles** (ASX: COL) holds 3,975 sqm (or 14.4%) of the Centre's NLA. Established in 1914, Coles is a leading Australian supermarket chain with over 800 stores across Australia. Commencement of the current lease begun in May 2012 on a 15-year lease term, expiring in May 2027. The Coles lease is structured on a percentage rent basis of 2.5% of sales in excess of $37.0M, less the difference between the base rent of the relevant lease year and commencing base rent of the lease. Additionally, Coles must pay percentage rent of internet sales recorded. If supermarket sales are less than $37.0M and gross sales (supermarket sales + internet sales) exceeds $37.0M, then the lessee must pay 1.25% of gross sales. If supermarket sales are in excess of $37.0M, then the lessee must pay 1.25% of internet sales. The Coles supermarket turnover was -3.1% for the 12 months to January 2021, at $26.5M, with the lower sales attributable to the June 2020 opening of a standalone Coles supermarket at Glenvale, 2km from the Centre.
- **Specialty tenants** within the Centre have typical lease terms ranging between 3 and 7 years with only a limited number of specialty leases holding further renewal option periods. All leases are structured on the payment of base rentals and include annual reviews which comprises typically of either CPI or fixed increases of 3% to 5%. The majority of tenants leases are structured on a net lease arrangement whereby individual tenants are required to contribute to a proportionate share of all recoverable outgoing's expenses, while only a limited number of tenants are leased on a gross basis.
- The centre currently has 13 tenancies that are vacant, or 1,050 sqm of GLA.

Figure 13: Portfolio Tenant Summary Clifford Gardens

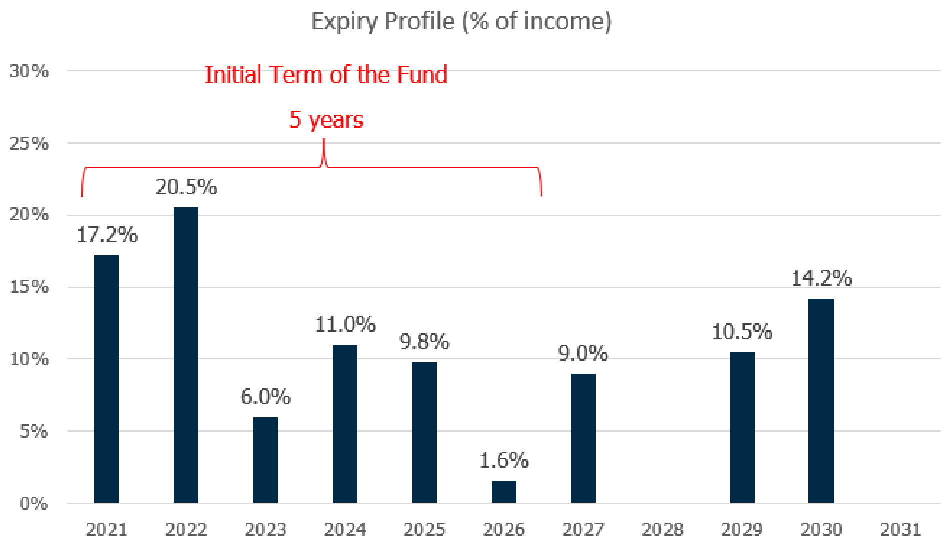
| Tenant | Lettable Area (sqm) | Lease Period | Options | Passing Gross rental | Occupancy cost | Rent Review |
|---|---|---|---|---|---|---|
| Big W | 8,186 | 20 years (July – 10 July 30 | 10 years | $2.3M | 7.1% | Percentage rent |
| Woolworths | 4,560 | 20 years (Aug 09 - Aug – 29) | 5 + 5 years | $1.6M | 4.1% | Percentage rent |
| Coles | 3,975 | 15 years (May 12 - May 27) | 10 years | $1.0M | 3.9% | Percentage rent |
| Specialties | 10,930 | Various 3-7 year periods | various | $6.5M | 13.4% | CPI or 3% to 5% |
| **Total** | **27,651** | | | **$11.5M** | | |

Source: Elanor, CBRE

Figure 14: Floor plan of Clifford Gardens Shopping Centre


Source: Elanor

Figure 15: Property lease expiry (by income)




Source: Core Property

## Centre Performance

The centre has reported Moving Annual Turnover (MAT) for the 12 months to January 2021 of $162.7M, which was -6.4% on the prior year. Sales at the supermarkets were impacted by the opening of the Coles Glenvale supermarket approximately 1.5km to the west of the centre, with Woolworths reporting -7.6% and Coles reporting -3.1% impact on MAT. Specialty sales were -9.6%, largely due to COVID-19 impacts during the period, while Big W reporting an impressive +17.1% growth in MAT.

The supermarkets (Woolworths and Coles) and have reported sales per sqm well below the market averages. Core Property considers this to be largely due to the supermarkets being larger than average full-line supermarkets, and we note the occupancy costs are around 3.8%-4.1%. The Manager's repositioning strategy is designed to drive increased foot traffic to the centre to deliver increased sales.

Figure 16: Clifford Gardens Shopping Centre – retail performance metrics

| | | | | Moving Annual Turnover (MAT) | | MAT per sqm | | | Occupancy Cost (%) | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Tenant** | **GLA (sqm)** | **% of GLA** | **% of Gross Income** | **Clifford Gardens[1]** | **Growth %** | **Clifford Gardens** | **Market[1]** | **Variance %** | **Clifford Gardens** | **Market[1]** |
| Big W | 8,186 | 29.6% | 14.0% | $32.6M | 17.1% | $3,979 | $3,433 | +15.9% | 7.1% | 7.1% |
| Woolworths | 4,560 | 16.5% | 9.8% | $39.3M | -7.6% | $8,616 | $12,417 | -30.6% | 4.1% | 4.1% |
| Coles | 3,975 | 14.4% | 6.2% | $26.5M | -3.1% | $6,671 | $12,417 | -46.3% | 3.8% | 3.8% |
| Mini Majors (2) | 1,723 | 6.2% | 8.7% | $9.0M | -0.2% | $5,189 | $6,167 | -15.9% | 16.1% | 14.2% |
| Specialties | 8,217 | 29.6% | 59.9% | $54.1M | -9.6% | $8,635 | $8,761 | -1.4% | 13.8% | 14.3% |
| Vacant/Other | 990 | 3.8% | 1.4% | $1.3M | NA | | | | | |
| **Total Centre** | **27,651** | | | **$162.7M** | **-6.4%** | | | | | |

Note 1: Based on 12 month results to January 2021. Note 2: Market comparisons are based on Urbis averages. Source: CBRE, Urbis

## Market Sales Evidence

The table below is a summary of the most relevant comparable sales transactions as provided in the independent valuation report by CBRE. The Property is being acquired at a rate of $5,229 per sqm, which is at the lower end of comparable transactions which range from $4,065 - $7,862 per sqm.

Figure 17: Comparable sales transactions

| **Property Address** | **Sale Date** | **Sale Price** | **Gross Lettable Area Retail (GLAR)** | **Initial Yield** | **Equiv Yield** | **IRR** | **Price per sqm** |
|---|---|---|---|---|---|---|---|
| Stockland Caloundra, Caloundra QLD | Aug 20 | $94.0M | 17,405 | 7.92% | 6.61% | 6.92% | $5,401 |
| Stockland Baulkham Hills, Baulkham Hills NSW | Jul 20 | $141.2M | 17,965 | 7.13% | 6.32% | 6.57% | $7,862 |
| Brimbank Shopping Centre, Deer Park VIC | Dec 19 | $153.0M | 37,634 | 7.55% | 7.17% | 7.45% | $4,065 |
| Greater Western Super Centre, Keperra QLD | Dec 19 | $84.5M | 15,389 | 6.92% | 6.60% | 7.75% | $5,491 |
| **Range** | | | | **6.92% - 7.92%** | **6.32%-7.17%** | **6.57%-7.75%** | **$4,065 - $7,862** |
| **Clifford Gardens Shopping Centre** | **May 21** | **$145.0M** | **27,651** | **8.25%** | **7.36%** | **7.55%** | **$5,229** |

Source: CBRE

## Market Rental Evidence

A report by the independent valuer has provided a sales analysis of the Property. A summary of these findings are below:

- The Big W, Woolworths and Coles leases are considered to be at market levels as per the independent valuation report.
- The Mini Majors (Terry White Chemmart, Best & Less) are assessed to be rented at below market levels.
- Specialty tenancies are on average 9.6% above assessed market levels.

The Manager has made allowances in its forecasts for rental reversions in line with market rental levels.

Figure 18: Market Rental Comparison

| Tenant | GLA (sqm) | % of GLA | Gross Rent per sqm Clifford Gardens | Gross Rent per sqm Market[1] | Variance % |
|---|---|---|---|---|---|
| Big W | 8,186 | 29.6% | $283 | $283 | 0% |
| Woolworths | 4,560 | 16.5% | $355 | $355 | 0% |
| Coles | 3,975 | 14.4% | $256 | $256 | 0% |
| Mini Majors (Best & Less) | 549 | 2.0% | $452 | $425 | 6.3% |
| Mini Majors (Terry White Chemmart) | 1,174 | 4.2% | $1,664 | $1,400 | 18.9% |
| Specialties | 8,001 | 28.9% | $1,160 | $1,058 | 9.6% |
| Kiosks | 141 | 0.5% | $3,773 | $3,362 | 12.2% |

Note 1: Market comparisons are based on Urbis averages. Source: Elanor, CBRE, Urbis

## Capex

The independent valuation has identified around $2.6M of maintenance capital expenditure for the Property over a five-year period. The Manager has forecast the repositioning strategy to increase capex requirements to $14.3M, or approximately 10% of the value of the Property, consisting of:

- $3.0M to deliver the new 1,000 sqm of health tenants and to develop the two new fast food outlets.
- $7.3M of Leasing capex, including renewal incentives and leasing costs.
- $4.0M of Centre capex, including maintenance and repositioning costs.
- The capex is estimated to support an additional $1.5M p.a. of net income for the Property, representing a ~10.5% yield on cost.

The capex is expected to be funded out of existing cash reserves as part of the capital raise ($5.6M), an additional draw down of $5.0M on the existing debt facility, plus further debt.

Core Property estimates the LVR of the Property to remain in the range of 47.5% - 50.0%, based on the Manager’s assumptions, as existing cash reserves are used to deliver valuation gains before further debt is required.

# Financial Analysis

Core Property has reviewed the financial forecasts presented by the Manager in the Information Memorandum. Our key observations are:

- The Manager is forecasting initial distributions of 8.2% p.a. in Year 1, increasing to 10.0% in Year 5.
- The Manager is assuming the sale of the car park site for $3.0M in year 2 increasing distributions to 12.1 cpu.
- Forecast assume rent growth of between 0.9% - 3.0% p.a., renewal probabilities of 100% (for supermarkets and DDS), and 70% - 75% (for mini majors and specialties). Mini majors and specialties assume downtime of 9 months (years 1 and 2) reducing to 6 months (year 3 onwards), 5-year lease terms, incentives of 7.8 months (years 1 and 2) reducing to 4.0 months (years 3 onwards).
- Forecasts assume the Centre achieves a 99% occupancy in year 2 (100% occupancy with a 1% vacancy allowance) with year 3 benefitting by $0.6M additional income from additional health tenancies and two fast food outlets.
- Assumes $4.7M of incentives in years 1 and 2, funded by balance sheet cash and debt, to support tenant remixing.

A summary of the Manager's forecasts, as provided in the IM, is presented in the table below.

Figure 19: Profit & Loss Forecast & Balance Sheet

| Profit & Loss - Forecast $M 12 months ended 31 May | Current State | Year 1 to 31 May 2022 | Year 2 to 31 May 2023 | Year 3 to 31 May 2024 | Year 4 to 31 May 2025 | Year 5 to 31 May 2026 |
|---|---|---|---|---|---|---|
| **Property Earnings – 100%** | | | | | | |
| Gross Property Income | 16.4 | 15.8 | 16.8 | 17.3 | 17.6 | 17.8 |
| Repositioning Gross Income | | - | - | 0.6 | 0.6 | 0.6 |
| Operating Expenses | -4.9 | -4.9 | -5.0 | -5.1 | -5.2 | -5.4 |
| Net Property Income | 11.5 | 10.9 | 11.8 | 12.7 | 13.0 | 13.0 |
| Sale of Car Park | | | 3.0 | | | |
| **Fund Holding – 50.1%** | | | | | | |
| **Net Property Income** | | **5.5** | **5.9** | **6.4** | **6.5** | **6.5** |
| Management Fee | | -0.7 | -0.8 | -0.8 | -0.8 | -0.8 |
| Trust Management Expenses | | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Interest | | -0.9 | -0.9 | -1.0 | -1.0 | -1.0 |
| **Cash Available for Distribution** | | **3.8** | **4.1** | **4.5** | **4.6** | **4.6** |
| **Distributions** | | **3.8** | **4.1** | **4.5** | **4.6** | **4.6** |
| **Distribution per Unit** | | **8.2 cpu** | **8.9 cpu** | **9.8 cpu** | **10.0 cpu** | **10.0 cpu** |
| Distribution Yield (on $1.00 issue price) | | 8.2% | 8.9% | 9.8% | 10.0% | 10.0% |
| Sale of Car Park | | | 1.5 | | | |
| Distributions – incl Sale of Carpark | | 3.8 | 5.6 | 4.5 | 4.6 | 4.6 |
| **Distn per Unit – incl Sale of Carpark** | | **8.2 cpu** | **12.1 cpu** | **9.8 cpu** | **10.0 cpu** | **10.0 cpu** |
| Distn Yield – incl Sale of Carpark | | 8.2% | 12.1% | 9.8% | 10.0% | 10.0% |

| Balance Sheet – $M – on acquisition (100% ownership basis) | 31 May 2021 Pro forma |
|---|---|
| Cash | 5.6 |
| Property | 145.0 |
| Other Assets | - |
| **Total Assets** | **155.6** |
| Borrowings | 72.5 |
| **Total Liabilities** | **72.5** |
| **Net Assets** | **78.1** |
| **Units on Issue** | **90.3** |
| **Net Tangible Assets per Unit** | **$0.865** |
| **Gearing Ratio (Debt/ Total assets)** | **48.1%** |
| **Loan to Valuation Ratio (LVR)** | **50.0%** |

Note: Balance Sheet forecast is based on the expected Net Tangible Assets following settlement of the Property. Source: Core Property.

## Initial NTA

The starting Net Tangible Assets (NTA) of the Fund is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Fund.

Core Property has calculated the initial NTA at $0.865 per unit, with most of the dilution coming from acquisition costs.

Figure 20: Initial NTA

| Amount per unit | $ per unit |
|---|---|
| Issue Price | $1.00 |
| Less: | |
| Acquisition Costs | -$0.09 |
| Acquisition Fee | -$0.03 |
| Debt & Fund Establishment Costs | -$0.07 |
| Cash & Working Capital | +0.06 |
| **NTA per unit** | **$0.865** |

Source: Core Property

## Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

Core Property has estimated the total return from the Fund based on the Manager's assumptions in the IM and the successful delivery of its repositioning strategy. **Using these assumptions Core Property expects the Fund to deliver a five-year Internal Rate of Return (IRR) in the range of 10.9% - 12.7% p.a. (midpoint 11.9% p.a.).** This calculation is based on a terminal capitalisation rate range of 7.00% - 7.50%, reflecting a +/- 25bps movement, as well as a +/- 25bps movement in interest rates. It should be noted the Manager has estimated the successful delivery of its repositioning strategy may support additional capitalisation rate movement and higher IRRs as follows:

- Terminal Capitalisation Rate of 6.50% = Forecast IRR of 14.5% - 16.3% (post fees)
- Terminal Capitalisation Rate of 6.75% = Forecast IRR of 13.6% - 14.6% (post fees)
- Terminal Capitalisation Rate of 7.00% = Forecast IRR of 12.7% - 13.0% (post fees).

**Core Property also calculates the target IRRs include an estimated +2.7% - 3.1% p.a. benefit for investors as a result of the repositioning strategy.** Our calculations are set out below and are based on a comparison to a base case scenario where the Property generates a nominal 1.5% p.a. increase in rental income.

**Investors should be aware the Property provides leasing risk from upcoming expiries which the Manager plans to address with its repositioning strategy. As such, investors should also expect the possibility for returns to fall outside the forecast ranges provided.**

Figure 21: Pre-tax, 5.0-year IRR (after fees) sensitivity analysis

| | Estimated IRR based on cost of debt of 2.40% | | |
|---|---|---|---|
| Terminal cap rate | Base – Current state + 1.5% rent growth | Full Repositioning Strategy | *Estimated benefit of Repositioning Strategy* |
| **6.75%** | 10.9% | 13.6% | *+2.7%* |
| **7.00%** | 9.8% | 12.7% | *+2.9%* |
| **7.25% (base)** | 8.8% | **11.9%** | *+3.1%* |
| **7.50%** | 7.8% | 10.9% | *+3.1%* |
| **7.75%** | 6.8% | 9.9% | *+3.1%* |

Source: Core Property

# Management & Corporate Governance

Elanor Investors Group (parent of Elanor Funds Management) is an ASX-listed Australian investment and funds management business operating over $1.8B funds under management. The Management team has had a proven track record in acquiring and managing assets across a range of real estate sectors.

Core Property has reviewed the composition of the Board and Senior Management of the Trustee and Manager and believes that it has the relevant skills and experience to operate the Fund. Each Director has demonstrable property and investment management skills, with no less than 20 years' property or finance experience.

Figure 22: The Board of the Trustee & Manager

| Name & Role | Experience |
|---|---|
| **Paul Bedbrook**<br>**Chairman** | Paul has over 30 years' experience in financial services, originally as an analyst, fund manager and GM & Chief Investment Officer of Mercantile Mutual Investment Management (ING owned) from 1987. In total, he was an executive for 26 years with ING Bank, with roles including: President and CEO of ING Direct Bank-Canada, CEO of the ING Australia/ANZ Bank Wealth JV, and Regional CEO for ING Asia Pacific, Hong Kong. Paul was appointed a Director of both ERF and the RE in June 2014 and is also the Chairman of Zurich Financial Services Australia and its Life, General and Investment Companies. |
| **Nigel Ampherlaw**<br>**Non-Executive Director** | Nigel was appointed a Director to the RE in June 2014. Prior to this, he was a Partner of PricewaterhouseCoopers for 22 years. Nigel has extensive experience across a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. Nigel is the current Chairman of Credit Union Australia and a member of the Strategy Committee. He is also a non-executive director of Quickstep Holdings Ltd and the Australia Red Cross Blood Service. |
| **Kin Song Lim**<br>**Non-Executive Director** | Kin Song has over 20 years' experience in the real estate sector across Australia and South East Asia, specialising in acquisitions, asset management, business development and leasing. He is currently the CEO of Rockworth Capital Partners and has been a key driver of Rockworth's rapid growth since its inception in 2011. Prior to founding Rockworth, he held various positions in leading property groups in Asia, including Frasers Centrepoint Ltd, Ascendas-MGM Funds Management and the CapitaLand Group. Kin Song holds a MBA from the Nanyang Technological University and a Bachelor of Science (Honours) in Estate Management from the National University of Singapore. He is also a member of the Singapore Institute of Surveyors and Valuers (SISV) and the Royal Institute of Chartered Surveyors (RICS), and a Chartered Commercial Property Surveyor. |
| **Tony Fehon**<br>**Non-Executive Director** | Tony has over 30 years' experience working amongst Australia's leading financial services and funds management businesses. He is an Executive Director of Volt Bank Limited, with a primary responsibility for capital management. Prior to this, he was an Executive Director for Macquarie Bank where he was involved in the formation and listing of several Macquarie's listed property trusts. In addition, Tony is also a director of enLighten Australia and Team Mates Pty Limited. |
| **Glenn Willis**<br>**Managing Director** | Glenn has over 30 years' experience in Australian and international capital markets. Prior to the establishment and ASX listing of Elanor Investors Group in July 2014, Glenn was the co-founder and CEO of Moss Capital (now Elanor Investors Group). Before this, he co-founded Grange Securities and led the team in his role as Managing Director and CEO before it was acquired by Lehman Brothers International in 2007 as the platform for Lehman's Australian investment banking and funds management operations. |

Source: Elanor

Figure 23: Senior Management Team

| Name & Role | Experience |
|---|---|
| **Glenn Willis**<br>**Managing Director** | See Board of Directors above. |
| **Michael Baliva**<br>**Fund Manager &**<br>**Co-Head of Real Estate** | With over 24 years' experience in the Australian and international property industry, Michael is responsible for the acquisition and investment management of real estate assets, with a focus on the retail sector. Prior to Elanor's listing, Michael held the positions as an Executive Director of Real Estate at Moss Capital for five years, and a Chief Investment Officer of Centro Properties in the USA where he was responsible for 235 properties valued at US$6.4B. |
| **Matthew Healy**<br>**Head of Retail,**<br>**Development & Mixed Use** | Matt is a retail property executive with over 20 years' experience in major real estate development, investment management and operations. He is responsible for the development and investment performance of Elanor's retail real estate asset management platform. Matt previously held senior roles with Westfield Group, Lend Lease and most recently, 151 Property Group, a Blackstone company, managing a portfolio of retail assets valued in excess of $3bn. |
| **David Burgess**<br>**Co-Head of Real Estate** | David has over 20 years' experience in property and equity markets, most recently as the Head of Investment, Office and Logistics at GPT. David's experience also encompasses a number of property valuation roles and equity research roles at Credit Suisse and Citigroup. At Elanor, David is responsible for development and overall investment performance of Elanor's commercial and healthcare real estate platforms. |
| **Paul Siviour**<br>**Chief Operating Officer** | Paul has over 30 years' experience in senior roles in financial services, investment banking and corporate finance. Prior to Elanor's listing, Paul was the Oceania Leader of Banking and Capital Markets and a partner in the Financial Services practice at EY. He has also held a number of positions at Investec Bank Australia, including Co-Head of the Private Bank and Senior Mergers and Acquisitions Adviser. |
| **Symon Simmons**<br>**Chief Financial Officer,**<br>**Company Secretary** | Symon has over 23 years' business management experience, most recently as Chief Operating Officer at Moss Capital, where he was responsible for the firm's Finance, Corporate, Human Resources, Legal and Administration functions. Symon previously worked for EY gaining experience across a range of businesses and transactions. He is Chairman of a social enterprise, Global Ethics Australia, and chairman and founder of The One Foundation Australia, which supports essential infrastructure projects in developing nations in Africa and Asia. |

Source: Elanor

## Compliance and Governance

The Fund is not registered with ASIC as a managed investment scheme. As an unregistered scheme, the Fund does not have a compliance plan, compliance committee, or related-party policy of its own. Instead, the Fund will be subject to the compliance policies of its Manager, Elanor Funds Management Limited, which is a wholly owned subsidiary of Elanor Investors Group (ASX: ENN).

As a listed entity, Elanor Investors Group has as a compliance plan, an audit & compliance committee, and policies covering related-party transactions and conflicts of interests.

# Past Performance

Elanor Investors Group (ASX: ENN) listed on the ASX in July 2014 with $173M of assets under management and has since grown this to $1.8B. The Manager has advised that it has realised a total of 13 unlisted property funds, delivering an average IRR to investors of 19.7% (range 7.7% - 46.4%) with an average hold period of 3.2 years. Elanor has also advised that it has delivered an average IRR of 24% to investors on its Retail properties.

Most recently, Elanor completed the successful repositioning Auburn Central, NSW transforming the asset from an underperforming sub-regional to a defensive triple supermarket, everyday needs neighbourhood shopping centre. The strategy delivered an IRR of 24.5%+ for the Elanor Retail Property Fund (ASX: ERF) upon sale in December 2020.

Investors should note that past performance is not a reliable indicator of future performance as each syndicate – and its respective underlying asset – has its own specific risks and attributes, which operate differently under different market conditions.

# 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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