Independent Research August 2005

Ferry Apartments - West End, Brisbane

RESEARCH CREDENTIALS

Under Corporations Act 2001, Property Investment Research Pty Ltd ("PIR") ABN 97 006 425 083 holds an Australian Financial Services Licence (No. 252599). Established in 1989, PIR is Australia's leading independent specialist research group on property related investments. PIR is the major supplier of independent property research to Investment Managers and Financial Advisers. Financial Advisers are required by s945A(1)(b) of the Corporations Act 2001 to properly research the financial products they recommend. PIR's independent research plays a vital compliance role for ASIC licensed Investment Advisers and Securities Dealers in that it: provides adequate knowledge of investment promoters, their track record, the investment market and the risks involved; and ensures, where specialised in-house research is not available, reliable and impartial research is obtained.

STATEMENT OF INDEPENDENCE

Property Investment Research (PIR) has received fees from **Australian Affordable Housing Association Inc.** for the preparation of this report. PIR is a property investment specialist and applies a strict and rigorously independent process for production of research reports and has no direct or indirect vested interest in the success or otherwise of any investment offer evaluated by PIR.

Under section 923a of the Financial Services Reform Act there are restrictions and penalties relating to the misuse of the word 'independent'. Neither PIR nor its directors, its employees or associates receive success fees, commissions, or remunerations based on transaction volume, gifts or any other peripheral benefits that may materially influence the direction of reports.

Additionally PIR's independent ownership means it has neither potential conflicts nor vested interests, such as those arising through ownership by real estate, stockbroking, financial planning or fund management organisations. Furthermore PIR has a policy of not entering into any agreements or alliances with product providers.

Neither PIR Directors nor PIR personnel or PIR consultants directly connected with the production of this report hold substantial interests (if any) in the securities analysed in this report.

DISCLAIMER

This independent research report was not prepared for inclusion in, or in connection with any Product Disclosure Statement or other offer document and should not be relied upon to provide all the necessary information for investment decisions. Although great care has been taken to ensure the accuracy of this report, PIR gives no warranties in relation to the statements and information contained herein and disclaims all liability arising from any persons acting on the information and statements in this report. PIR reserves the right to change its opinion, ratings and/or withdraw the report at any time on reasonable grounds. PIR research provides general opinion and not personal securities recommendations. All investors are strongly advised to consult professional financial advisers whose role it is to provide appropriate investment advice, taking into account an individual investors' investment objectives, financial situations and particular needs. PIR assumes no responsibility or obligation to provide updates on this published report. This report is prepared and issued by PIR for the purpose of the assessment of the investment in this scheme. This assessment is valid for investment purposes for a period of six months on the provision that no material changes are effected. Please consult the Manager or your financial adviser for further information.

Yours faithfully, Richard Cruickshank, Managing Director.

To find out more about Property Investment Research (PIR), visit http://www.pir.com.au

For information on PIR's Investment Evaluation Process go to http://www.pir.com.au/pdf/guidetopirsIES.pdf

PROPERTY INVESTMENT RESEARCH
Leaders in independent research

Research – Affordable Housing Investment (Geared version) **August 2005**

Ferry Apartments – West End, Brisbane

Summary

Offer Overview

The Manager is offering investment in affordable housing units in inner city Brisbane. Individual units are for sale to investors. The property, including a boarding house, will be fully leased to selected tenants through a third party property manager. Tenants pay below market rent and will have the opportunity to purchase the unit at the end of a ten year time frame. The Manager has the right to use a patented development and payment process that allows investors to share in a significant amount of what would normally be the development profit. This profit is invested in Listed Property Trust Units and the income and growth from these units counter balances the rental discount.

Evaluation Summary

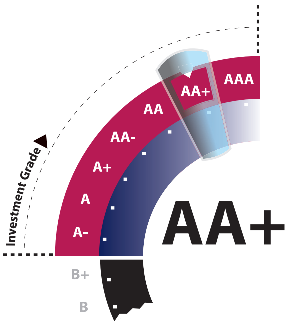
The individual property units, each on a separate strata title are normal investment property apartments. All the normal tax advantages of deprecation are passed on to the investors including the benefits of negative gearing. The returns are significantly enhanced by the level of gearing. Given the nature of the long term leases and the option for the tennant to purchase the property, this is considered by PIR to be primarily a financial instrument investment with the benefits (and risks) of a residential apartment investment. This new investment approach to an established asset class is structured in such a way to give investment returns whilst providing affordable rentals to a market place that is considered to be socially responsible.

Management

The Asset Management team consists of Napier & Blakeley a national firm of quantity surveyors and project managers and Income Asset Management Pty Ltd a newly formed entity that enters into the long term lease with the investors and is responsible for managing the onsite manager who is Brisbane Boarders Association, a not for profit organisation whose sole business is managing affordable housing having over 350 units under management above 98% occupancy during 2004. management above 98% occupancy during 2004.

Overall Investment Rating (update)

Ratings vary with investor profile and option – refer Page 2.



Scheme Details	
Asset type	Residential
Duration of investment	10 years
Average unit price	$340,919
Distribution frequency	Monthly in arrears
Liquidity	Nil
Adviser Commissions	Nil
Manager	Napier & Blakeley
On-site Manager	Brisbane Boarders
Builder	Castleplex Group
Landowner	AAHA
Asset Manager	Income Asset Management

Investment Profile	
Property location	Brisbane QLD
Property sector	Residential
Future borrowing commitments	Nil
Gearing ratio (% of T.A.)	80%

Returns forecast by the Manager*

Year end 30 June	2006	2007	2008
After Tax Return	74.1%	4.6%	1.1%

*After tax return, 48.5% tax rate

Major Considerations

- ▲ The rental market for affordable rentals in Brisbane's West End is in high demand
- ▲ Rental is indexed to CPI annually
- ▲ Income supported by a 10 year lease and a long term contract providing a known income stream from sale of the Management rights
- ◀▶ A new method of delivering development profit
- ▼ The returns are very heavily reliant on the capital gain of both the Brisbane apartment market and the Listed Property Trust market and hence the commercial property market
- ▼ As a result of Brisbane City Council providing inter alia a density bonus, the project is subject to a use covenant for ten years in favour of Brisbane City Council which requires the property to be leased at an affordable rental for that period.

Property Investment Research Pty Ltd (PIR) A.B.N. 97 006 425 083 AFS Licence No. 252599
Level 6, 423 Bourke Street Melbourne 3000 Australia (GPO Box 4723 Melbourne 3001 Australia)
Telephone: (03) 9670 7767 Facsimile: (03) 9642 5579 e-mail: propinv@pir.com.au www.pir.com.au

Conclusion

Qualitative Criteria	Star Ratings Assessment (0 – 5)
Quality of assets	★★★½
Strength of relative property markets	★★★
Quality of income stream	★★★½
Potential upside for vehicle	★★★½
Diversification	½
Investor's initial value	★★★★½
Level of fees	★★★★
Capital structure and debt management	★★★★½
Quality of disclosure	★★★★
Track record and capacity of Management	★★★

Table i

The benefits generated in the Ferry Apartments project flow in part from the adoption of a patented development system created by APSL, a company listed on the Newcastle Stock Exchange. The patented system manages a process that facilitates the development without the need for a developer. APSL licenses their patented system to development managers and for the Ferry Road project have licensed Napier & Blakeley as the development manager.

Incomes such as developer's profit, sales commission savings, interest savings and sale proceeds of the management rights are applied within the model to generate alternate income sources. These in turn are repatriated into the development for the benefit of both owners and tenants.

PIR Investment Ratings by investor profile*

		Investor's risk **tolerance**		
		High	Average	Low
Tax rate	48.5%	**AA+**	**AA+**	**AA+**
	31.5%	**AA+**	**AA+**	**AA+**
	15.0%	**AA+**	**AA+**	**AA+**

PIR's investment ratings are derived directly from estimates of after-tax IRRs adjusted for risk. Because this system determines a rating for specific tax rates and levels of risk tolerance, it recognises that investors have different attitudes. For an investor profile, it also enables direct and valid comparison with any other offer rated on the same basis for the same specific profile. The investment grade ratings range is: A-, A, A+, AA-, AA, AA+, AAA.

** For further explanation refer to the back page of this report or visit www.pir.com.au/investors*

Table ii

The Development Manager provides management on a fee for service basis and progresses the development to obtain all authority approvals, marketing and sales up to the commencement of construction.

The model is fully costed and requires no ongoing subsidy or contributions from external sources.

The return for the investor is not solely reliant on the real estate component income.

The investor in a single apartment or an institutional investor receives the designated rental income and a listed financial product that is stapled to the property. It is by this unique and patented system that socially responsible affordable housing can be delivered whilst at the same time creating what is in this case an investment grade rated product for Institutions and Fund Managers.

This report and the financial modelling has been undertaken on the basis of an investor borrowing 80% of the property price. Due to the concessionary nature of the rental income stream this results in a negative income to the investor. Aided by deprecation advantages this results in the investor gaining varying degrees of benefit of net income as a result of the tax deductability of the income losses depending on the investors tax rate.

The Ferry Apartments project at West End in Brisbane proposes construction and management of 37 traditional residential apartments independently valued 'on completion' at $12,110,000 by Preston Rowe Patterson Valuers plus a furniture package of, on average $14,000 per apartment. The apartments will be good quality with a mix of 15 x four bedroom units, 11x two bedroom units and 11x dual key units and will be available to rent on a room by room basis at an affordable rental, which includes a path to a home ownership option. Tenant selection and on-site management will be by the Brisbane Boarders Association, an accredited not-for-profit-organisation with ten years of experience with over 350 units currently under management.

The Australian Affordable Housing Association (AAHA) is a not-for-profit-organisation dedicated to providing good quality affordable housing for low to middle income earners with household incomes from $300 per week to $1050 per week. Until now there has been no beneficial housing solution for local, state and federal government or its low to middle income constituents. The real increase in residential real estate prices over recent years has exacerbated the housing affordability dilemma for low to middle income earners.

In line with the recent property market boom in Brisbane and Australia as a whole, the median unit price in West End has increased by 180% during the period from 1999 to 2004.

The median rent for a two bedroom unit in West End in the December quarter of 2004 was $250 pw while greater Brisbane achieved $230 pw. Occupancy levels across Brisbane rental accommodation during the accelerated growth in supply up to 2005 have been maintained at above 95% while West End and South Brisbane have achieved 97% for new properties after one year and 98% for older properties, according to Norris Clarke and O'Brien (Research Consultants and Town Planners.

The demand for affordable housing across Australia has been growing significantly in recent years mostly as a result of the substantial increases in construction costs and the median dwelling price across Brisbane has increased by 215% for houses and 155% for units between 1999 and 2004. At the same time, wages have only increased in line with the consumer price index in the order of 3% pa.

The population base in Brisbane at 2004 of 1.77 million continues to grow at in excess of 2% pa. Given the average number of households of 2.5, this necessitates approximately 14,200 new dwellings in 2005. The AAHA product is aimed at affordable rentals in good to higher quality locations and regardless of the growth or slowdown in residential markets this sector in close city locations is not accommodated due in large part to traditional development methods and the resultant high prices.

Due to the adoption of the unique financial model, the AAHA product provides affordable rentals at an effective 37.5% of market rent in a close city locality in an emerging prime location in West End while providing investment returns in an investment grade rated product.

AAHA model is not social housing

The AAHA affordable housing model aims to provide good quality property no different to other housing in the community and the product should not be confused with social or low income housing. The AAHA product is aimed at those people who are unable to break the rent cycle and those people in the community that are not being serviced by the normal property developer marketplace or public housing. There are minimum income levels threshold criteria in order to qualify as a prospective tenant. In addition, the tenant must be in regular employment. It is envisaged that the majority of affordable housing tenants will be on the average income of approximately $45,000 per annum gross. In addition the properties that AAHA intends to construct are upscale apartments in design, finish and in desirable locations, the latter factor underpinning the capital growth potential for the investor.

How the affordable housing model works

Under the affordable housing model, the tenant enters into a lease and pays a rent that is 75% of a normal market rent for the property. The market rent is determined by an independent valuer. After expenses half of this rent is delivered to the investor as an income stream and half is deposited into a housing ownership grant scheme on behalf of the tenant. Every six months the property is inspected by the property manager. If the property is deemed to be in satisfactory condition, those funds are deposited into a housing ownership grant scheme which in turn is invested into Listed Property Trust (LPT) securities in trust on behalf of the tenant to provide for a deposit to buy the apartment or another property.

If the property inspection reveals unsatisfactory damage beyond normal wear and tear to the property then this money is applied to repairs and the remainder is credited to the home ownership grant scheme.

The tenant qualifies for a deposit grant if they remain a tenant for a minimum period of seven years. After 10 years the tenant has the opportunity but not the obligation to purchase the demised property (or another property) from the investor at fair market value as determined by an independent valuer. The investor, at the end of the 10 year rental period, may elect to sell to the occupying lessee, to sell to the open market, or to keep the apartment and to offer it for lease at normal market rent.

Key Assessment Issues

Among the key issues for investors to consider are the current cooling of the residential property market in Brisbane and the significant recent growth in LPT security prices. These growth rates cannot be guaranteed to be delivered in the future. Therefore PIR has used more conservative growth rates in it's modelling than would be adopted if past headline performance (growth including inflation) was used.

Other factors that investors need to consider are the fact that this is a new and untested product in the market place. The valuer makes the point that direct comparisons of this type of affordable housing product for determining market value, are currently non existent and they have used normal owner occupier and investment apartments as direct comparable properties in undertaking their valuations.

Another factor that investors need to consider is that the value of the properties undertaken, whilst being a fair market value, may not be reflective of market value at completion of construction. As the majority of investment returns are derived from capital growth based on this valuation, investors need to assure themselves that the valuations are actually reflective of fair market value. In addition, investors should note that the properties that have been valued are new properties and at that the future value of the properties they purchase will be of established properties.

Part of the unique model of development under the APSL system is that the system provides the mechanisms for security of tenure and settlement to occur prior to the commencement of construction of the project. As a result, development profits are able to be taken into account at the start of the project instead of at the end. In addition the investor receives all of the development profit, the development manager receives fees for the delivery of the product and APSL, the licensor of the system, receives licensing fees and royalties from the development manager.

The investor purchases the property for the full 'off the plan' valuation amount. The difference between the cost of construction and the land, which is represented by the developer's profit captured by the investor, is then invested into units in LPTs listed on the ASX. LPTs have traditionally been a high yielding investment with solid, normally low levels of capital growth which have been ahead of the rate of inflation. A selection of LPT investments will be provided by AAHA at the time of settlement and investment in the LPT securities. Management of the investment in the LPT units will be undertaken by Wilson HTM of Brisbane. For a full understanding of the Australian LPT market, investors are advised to read the "Australia's Top Property Trusts 2005-2006" authored by PIR's John Welch and published by Wright books.

Income Returns

It is intended that Income Asset Management (IAM) purchase the rights to the management of the proposed units for Ferry Road, West End in accordance with the aims and objectives of both IAM and the Australian Affordable Housing Association. Based on a review by Brisbane Boarders, it is concluded that achievable weekly market rents for the proposed units at Ferry Road, West End are:

- Studio Unit: $128;
- One Bedroom Unit: $150;
- Two Bedroom Unit: $240;
- Boarding Room: $110.

These figures are in keeping with the rental rates being achieved by other affordable housing providers in West End.

PIR has examined the financial projections of the Manager based on the valuations and supporting evidence and is satisfied that the properties are able to generate sufficient income yield to match the Manager's model subject to best practice corporate governance being undertaken by the Manager's consultants, Directors and staff.

The growth rates that PIR has used on the LPT units is lower than that forecast by the Manager and is based around historical evidence and smoothing of growth returns. Thus PIR's internal rate of return results vary from those of the Manager as a consequence of different assumptions and financial modelling process.

PIR is confident that the income returns from the tenants will be consistent with the Managers forecasts.

There is a significant level of tax effectiveness associated with residential property investment. It is derived from depreciation of the building construction component at 2.5% per annum and the depreciation of chattels. Chattles are depreciated at varying rates and Napier and Blakeley, in their capacity as quantity surveyors have provided the Manager with a deprecation schedule. The deprecation allowances are deducted from the property income before any tax is payable.

The forecast tax sheltering percentages are an average of 94.1% over the first 3 years of the investment. Rental growth is assumed to be 3.05% p.a. for the forecast period (July 2006 – June 2016) which is the rate of inflation used in the Manager's model. PIR believes this figure is reasonable given that it is also below the long term growth rate of the Australian economy.

The Management Rights sees the money that would normally be paid to the property developer for the sale of the management rights, repatriated to the investors over the 10 year period and re-valued at every 10 year interval, therefore giving the investors a contracted income stream over time that is treated as an extra asset as the income stream should have a net present value that can be on sold.

PIR is satisfied that the Manager has the mechanisms in place to ensure that vacancy risk is mitigated appropriately. This risk is mitigated to some degree by the fact that the 'rent to buy' lease structure provides for a portion of the rent paid by the tenant (as opposed to the rent received by the investor) to be saved in trust for use by the occupational tenant as a deposit (should that tenant elect to purchase the unit) at a later stage. The manager and the owner have a claim against that amount in the trust in the event of rental arrears, the cost of remediation of damage to the unit beyond reasonable wear and tear or upon default of the lease.

In general, differences in rental, cost growth forecasts and projected resultant yield distribution between the Manager's financial forecasts and projections and those calculated by PIR are not substantial. PIR has undertaken a ten year cash flow analysis as part of the financial rating model process. PIR's summary forecast of cash flows follows in the section, Capital Returns.

Investors should note that there is a difference in the cash return forecast by AAHA and the income figures in PIRs financial forecasts and projections due to modelling methodology.

Capital Returns

Under the expected scenario, the annual average capital growth in the value equity invested is assumed to be 5.5% p.a. Thus, capital growth is likely to be above the levels of inflation throughout the forecast period. The growth rate required to return $1of property value (after acquisition costs such as stamp duty) by the end of the ten year forecast period is approximately 0.43% (Table iii).

Current Realisable Value	Standardised six year term
Growth rate required to return $1 at end of period:	0.68% p.a.

Table iii

The likely capital growth is estimated to range between 4.4% p.a. under the downside scenario, to 7.25% p.a. in the upside scenario. The rate of growth combines the expected growth rate on the value of the property and on the investment in LPT units.

For modelling purposes under the expected scenario, PIR has assumed the rate of capital growth on the apartment to be 6% p.a. This growth rate incorporates inflation (assumed to be 3% p.a.) and real value growth.

With this investment assumed to be geared at 80%, the growth in value of the equity invested is considerably higher as is the nature of geared residential property investments. However the converse is true should there be negative growth in the relevant property market, which will result in a greater rate of capital depreciation.

The percentages in Table iv provide figures for use as benchmarks and replace the former NTA calculation, the true meaning of which has dissolved with the increased application of accounting convention.

For further analysis and benchmark comparisons of transaction and establishment costs, subscribers should visit www.pir.com.au.

Financial forecasts and projections (PIR expected case) WITHOUT Tax Advantage

Year ended 30 June	**2006**	**2007**	**2008**	**2009**	**2010**
Rental Income	-	10,712	11,033	11,364	11,705
Management Rights Income	-	1,045	1,045	1,045	1,045
LPT Distribution Income	-	3,876	4,011	4,152	4,297
Managemnt Rights Terminal value	-	2,043	2,043	2,043	2,043
Other Income	59,214				
Gross Income	**59,214**	**17,676**	**18,133**	**18,604**	**19,090**
Property Expenses	1,300	5,158	5,313	5,472	5,636
Interest expense	9,546	19,091	19,091	19,091	19,091
Total Expenses	10,846	24,249	24,404	24,564	24,728
Net Income	**48,368**	**-6,574**	**-6,272**	**-5,960**	**-5,637**
Avaliable For Distribution	48,368	-6,574	-6,272	-5,960	-5,637
Equity	68,184	68,184	68,184	68,184	68,184
Annualised Cash yield on First Instalment	70.94%	-9.64%	-9.20%	-8.74%	-8.27%
After-tax Return With Tax effectivness					
48.5% Tax rate	70.9%	2.5%	2.6%	2.8%	3.0%
31.5% Tax rate	70.9%	-1.8%	-1.5%	-1.2%	-0.9%
15.0% Tax rate	70.9%	-5.9%	-5.5%	-5.2%	-4.8%

Table iv

Debt

This report and modelling and subsequent PIR rating has been undertaken on the basis of 20% equity. Investors who are considering investing in this project on an un-geared basis are advised to view the PIR un-geared investment report. The debt is expected to be the personal liability of the investor secured by a mortgage over the subject investment property. As a result the debt and the liability for repayment is expected to be the liability of the investor and is not non-recourse debt, meaning that unlike most property trust and syndicate investments in the event of default on the loan the lender has the right to attach all the assets of the investor to recover any amount owed under the loan agreement. For the basis of modelling PIR has assumed an interest rate of 7.0% pa on the amount of the loan.

Application of Funds	$000	%	Source of Funds	$000	%
Contract purchase price Property	340,919	100%	Equity	68,184	20%
			Debt	272,735	80%
Total Funds Employed	**340,919**	**100%**	**Total**	**340,919**	**100%**

Table v

Taxation

Income tax: There are taxation benefits available to investors by way of a tax advantaged component, which represents a percentage of 'tax deferred' income. This tax-advantaged component is due to allowable deductions, such as depreciation of improvements, plant and equipment and certain establishment costs. In addition due to the expected amount of interest being greater than the income from the property there are negative gearing benefits occurring after year one. The level of benefit of a negative gearing strategy depends on an investor's marginal income tax rate. Negative gearing investment strategies are of most benefit to those investors on the higher marginal tax rates. To obtain the benefits of negative gearing the investor needs to submit a tax return to the tax office and generally receives the negative gearing benefit in the form of a tax deduction. Investors are strongly advised to seek independent taxation advice on the appropriateness of any negative gearing investment strategy and the particular appropriatness to an investors personal circumstances.

Capital Gains Tax: Tax is payable on accumulated tax deferrals as well as on increases in property value (net of sale costs). The cost base used in calculating such capital gain will be reduced by any amounts already claimed as a deduction. Australian investors can expect to receive an income stream that is tax advantaged to an average of around 94.1% for the first three years of the investment.

GST treatment: PIR understands that GST recovery is included in all lease documentation.

The taxation implications of investing may vary according to the investment structure adopted by investors and potential changes to the Taxation Act.

It is strongly recommended that investors seek/obtain personalised professional and independent financial advice before choosing to purchase units in this or any investment property vehicle.

Risk and total returns

Results disclosed are based on an analysis that assumes there is no change to the property in the form of re-development, forced or other deleterious sale or expansion not assumed in the Manager's current forecasts during the ten year horizon.

From PIR's analysis, the after-tax (at 60%) IRR under the expected case is 21.26% and under the downside and upside scenarios are 17.04%p.a. and 25.49% p.a. respectively. Table vi indicates the range of likely IRRs, with results in downside and upside case effectively being one standard deviation from expected figures.

Forecast IRR – after tax and 80% investor gearing	Downside	Expected	Upside
48.5% tax rate	17.04%	21.26%	25.49%
31.5% tax rate	18.90%	23.14%	27.29%
15.0% tax rate	19.14%	23.74%	28.39%

Table vi

Assumptions

PIR's forecasts are based on assumptions listed in Table vii with respect to critical inputs identified by sensitivity analysis. The following assumptions have been made with respect to future growth in values of the property and the LPT units as well as the income distribution of the LPT units.

PIR assumptions	Downside	Expected	Upside
Annual property value growth	4.50%	6.50%	8.50%
Annual LPT value growth rate	3.00%	3.50%	6.00%
Rental growth	3.00%	3.00%	4.00%
LPT income returns	6.00%	7.50%	8.00%

Table vii

Offer structure

This investment is an individual strata titled residential apartment property with an affordable housing/boarding house covenant for a period of 10 years. The investor will receive a registered and encumber-able title to a specific part of the property. Whilst that part of the property may be utilised as a boarding house it has the potential to be a self contained residential apartment.

In addition there is an investment in Listed Property trust units, which are held in the name of the investor and are managed by a Brisbane based stockbroker. It is assumed that all distributions are re-invested in a dividend reinvestment programme, whereby the distribution is used to purchase additional units in the LPTs thus producing compounded accumulation investment returns. This has been factored into the PIR model.

Liquidity and exit mechanism

An investment into an apartment in this project should be considered to be illiquid and long term.

This style of investment ownership of affordable housing is in its infancy and has yet to be tested on the secondary resale market.

As all properties will be encumbered by a 10 year lease and there is a covenant on the titles by the Brisbane City Council, it is PIR's view that any resale of the property will only be made to investors as occupancy potential to any purchaser is considered to be extremely unlikely.

There exists the potential for a defined listed or unlisted secondary market in these affordable housing property investments however as yet no such market exists.

The tenant qualifies for a deposit grant if they remain a tenant for a minimum period of seven years. After 10 years the tenant has the opportunity but not the obligation to purchase the property from the investor at fair market value as determined by an independent valuer. The investor, at the end of the 10 year rental period, may elect to sell to the occupying lessee, to sell to the open market, or to keep the apartment and to offer it for lease at normal market rent. It is possible that at that period in time the market conditions may be more favourable to the tenant than the investor. Investors should note that they are unable to choose the time that a tenant purchases the property up to the end of the lease.

If the tenant declines to purchase the property then the investor will be entitled to vacant possession of the property. At that time the investor's options are (but are not limited to) to sell the property to another investor or owner occupier, to rent the property to a tenant of their choice under normal market conditions or to release the property under the affordable housing scheme, at the end of the ten-year covenant.

Fees & expense

Under the structure of the AHAA model the fees due to the various managers and to APSL, the licensor of the system are paid during construction and are accounted for out of the normal developer's profit, with the balance of the developers profit going to the investors.

Ongoing fees such as the property management fees to Brisbane Boarders, are at normal commercial rates and are deducted from the gross rental stream prior to the investor receiving their income.

All expenses are expected to be paid for out of the gross income stream. These expenses include Rates, Body Corporate levies, Insurance, maintenance and sinking fund.

The incomes used by the RE and in PIR's model are subtracted from the gross rental income and the rental income received reflects the net income to the investor after all fees and expenses.

Capacity of Entities

Builder: Castleplex Group

Castleplex Group: Castleplex Group was established in 1999 and has 40 permanent and contract employees. Among the Group's competencies are construction, renovation, shop fit-out and property development. Among the completed developments to date are the $3.4m Cardross Manors in Yerongpilly, QLD and the $3.5m Sunnybank Parkside 23 townhouse complex development. The Group is currently undertaking the Ariel Apartments in Kingscliff, NSW – a $2.65m development and Sutton's View, a $4.5m residential complex in Margate, QLD.

Castleplex Management for the Ferry Apartments project comprises: Steve Wong - Project Director holding a Bachelor in International Business with majors in International Management and Economics, 19 years experience in international purchasing, property investment and extensive experience in property development and construction; Raveen Luckman – Project Manager holding a Bachelor of Applied Science (Construction Management and Quantity Surveying) with 13 years experience in Contract Administration, Quantity Surveying and Project Management; and Roger Roebuck – Site Manager over 25 years experience in purchasing and onsite management with recent experience in quality apartments.

The responsibility of the delivery of the completed development lies with this Group under a fixed price contract. The cost of any cost-overruns or non-authorised variations will necessarily be borne by this Group and its capacity to meet such cost over-runs. Included in the Project Coordination Deed (Preliminary Building Contract) signed by Castleplex is that they are committed to providing a 10% Performance Bond prior to commencement of construction for the duration of the project and a further 5% cash retention will be imposed on all draw downs during construction up until practical completion when it will reduce to a 2.5% retention during the defects liability period. In effect the investors will have 15% performance monies of the total contract value from Castleplex to ensure completion.

Construction Auditors: Napier & Blakely

Napier and Blakeley have been engaged as Quantity Surveyors, Development Managers and Construction Auditors. The company has achieved results across a range of projects and tasks. The Brisbane office has a solid track record in performance and financial stability. Napier & Blakeley Pty Ltd has been providing services to the Property and Construction industry since 1985 with a focus on Quantity Surveying, Development Management, Project Management and a multi-disciplined base. The combined business operates from six offices in Australia, employs over 130 staff, and has a history of trading profitability with an annual fee turnover in excess of $20 million.

Napier & Blakeley is a privately owned business with all owners working in the business. Over the years, it has formed relationships with a number of key financiers to finance it's growth.

Napier Blakeley provides Development Management services which incorporates Site and Building Evaluation and Purchaser Due Diligence advice, preparation of Feasibility Reports, establishing probable construction cost, determine a Development program and implement a Realization program, coordinate all advisory inputs and monitoring reports to Stakeholders. The Development Manager brings 35 years of industry experience and knowledge in the field to this role having controlled projects of types and values up to AUD$250million.

Napier & Blakeley regularly fulfils the role of Construction Auditors working for the main banking and financial organisations. The roles include providing due diligence reports, documentation audits, bank reports, auditing progress claims, valuation of work in progress, cost planning, and a range of other services that overview and support an investors' interests.

Substantial clients who have utilised these Napier & Blakeley professional services include Macquarie Bank, ABN AMRO, Westfield, Stockland, Centro Properties, AMP, St. George Bank, National Australia Bank, Westpac Bank, ANZ Bank, Commonwealth Bank and Colonial First State.

Asset Managers: Income Asset Management Ltd

A newly formed company, IAM has been set up for this new investment asset class. The directors and management have a considerable experience in property and investment asset management. Among the directors are Ross Noye of Wilson HTM Stockbrokers and Geoffrey Jamieson, director of APSL and President of AAHA.

The risk associated with the 10 year lease being offered by the newly formed company is offset by the affordable returns of 37.5% of market value being paid to investors under the lease. This low rental rate is likely to facilitate 100% or near full occupancy which would enable IAM to meet its commitment under the lease.

Onsite Managers: Brisbane Boarders

Brisbane Boarders Association is a not for profit organization whose sole business is managing affordable housing and has over 350 tenancies under management and achieved above 98% occupancy during 2004, an average debt to income ratio of 0.4% and has operated successfully since incorporation in 1995. Most properties are located in the inner suburbs of Brisbane.

The Associations patron is Councilor David Hinchcliffe the Deputy Lord Mayor of Brisbane. The Association is administered by a Board of Management which employs staff to administer its housing programmes. The staff administer the day to day business of the Association and include office, maintenance, tenancy and caretaker staff. Walter Ogle is the CEO while Donald Button, Mike Harris, John Keane and Garry Button are the principal office bearers of the Board.

The Association currently offers accommodation under three programmes of the Dept of Housing.

Landowner: Australian Affordable Housing Association Inc

The AAHA is a not for profit organisation designed to promote a unique housing system to Government that aims to offer a sustainable solution to housing affordability. The Association was incorporated in August 2004. The AAHA product is not social housing, it is community housing of reasonable quality that is affordable as a direct result of the unique and patented financial model, licensed from Australian Property Systems Ltd.

The core purpose of the AAHA is to meet the accommodation needs of a demographic group classed as middle income earners ($15,000 - $58,000 p.a.), who are currently unable to save, or purchase accommodation that is suitable for their needs.

Property and Location Analysis

Ferry road runs west off Montague road, towards the southern end of Montague Road. It is currently included within the Light Industry designation and the surrounding uses are generally characteristic of conforming uses within this designation. The subject site, at 14 Ferry Road is currently vacant.

Ferry Road is well located in close proximity to public transport services. A City Cat terminal is located on Hoogley Street within approximately 850 metres and bus services run down Montague Road. Ferry Road is close to Orleigh Park, which runs along the bank of the Brisbane river and to Davies Park. The nearest train station is located at South Brisbane, approximately three kilometres away. The City Cat provides river access to the University of Queensland Campus at St. Lucia, along with access to the CBD.

West End is an inner city suburb of Brisbane, located on the northern bank of the St Lucia reach of the Brisbane River. The suburb consists of a number of distinct precincts. The area generally to the west of Montague Road is currently predominately industrial and commercial in nature. These are a number of large industrial uses located adjacent to the northern portion of Montague Road. Those areas to the west of Montague Road are dominated by pre-1946 detached “timber and tin” dwellings and post World War Two multi-unit dwellings.

The Brisbane City Council has recently released the Draft West End Local Plan. This plan focuses on the area of West End between Montague Road and the Brisbane River. It is intended that over time the industrial nature of this area evolve into a commercial and residential district. This area represents arguably the greatest single opportunity to establish residential densities in close proximity to the Brisbane CBD.

Demographics:

The built form in West End can be characterised as a mix of units and detached dwellings. Unlike the pattern of development found in Greater Brisbane, where detached dwelling predominate, multi-unit dwellings and semi-attached dwellings constituted over half of the dwellings found in West End.

West End has a higher percentage of renters than found in Greater Brisbane. In the 2001 census:

- 37.6% of occupied private dwellings (986 dwellings) were either fully owned or being purchased.
- 54.2% of occupied private dwellings (1 419 dwellings) were rented.

These figures represent a slight decrease in ownership or purchase from the previous census where:

- 37.4% of occupied private dwellings were either owned outright or being purchased.
- there has been a corresponding rise in the number of rented dwellings over the same time frame.

The proposed and approved use of the subject property is for a multi level multi unit development including a boarding house. The boarding house layout is such that it can be converted into individual units if required and there will be several titles on offer for sale to investors for this purpose. Dispensation has been granted by Brisbane City Council to this site for additional densities, set back provisions, height, reduced car parking requirements, infrastructure charges and planning fees in favour of the ten year covenant for the provision of affordable housing.

The proposed use is considered by the valuers to be the highest and best use for the site.

The property has a covenant that requires the property to be used in part as a boarding house for a period of ten years.

Product Design and Specification

The Development

- 37 Apartments over four levels in a diverse village community
- Contemporary Architecture identified with West End style
- Courtyard design with private balconies
- A mix that attempts to cater for families, couples and singles
- Effectively an on-site tenant management system

Apartment features

- Modern central courtyard design
- Good finishes throughout equipped with good quality appliances
- Power and drainage provided for optional air-conditioning
- Furnished

Security

- Proximity security card controlled access to entries
- Audio security intercom to each apartment
- Security lighting to entries and grounds

Apartment Mix

- 15 x four bedroom apartments
- 11 x dual key apartments (bed-sitter + one bedroom)
- 11 x two bedroom apartments.

Due Diligence

Property Investment Research Pty Ltd (PIR) advises that in the compilation of this report, we have not conducted a full due diligence on this offer. Investors would be well advised to consult the offer document and conduct their own inquiries, and receive professional advice.

This report was not prepared to form any part of any offer document. PIR has relied upon information contained in the offer document. PIR has carried out its own independent inquires. PIR has inspected the proposed site and met representatives of the Manager and AHAA. There were no issues apparent from a physical inspection of the property, or from discussions with the Manager, that would have a detrimental impact on an investment in this project.

PIR has reviewed the following documents: (i) Asset Manager's Lease (ii) Market Report by Norris, Clarke & O'Brien (iii) Affordable Housing Management Plan, dated 3 August 2005, (v) On Site Managers sub lease, (vi) Davis Langdon Independent Purchasers Quantity Surveyors report; vii) valuation by Preston Rowe Patterson Independent valuers; (vii) Project co-ordination deed.

Explanation of Investment Rating

The Investment Rating Financial Model (patent pending) provides a single measure of the overall investment merit of this vehicle for various investor profiles. It incorporates the level of expected returns (IRRs) from the investment and adjusts these for both illiquidity and risk associated with this investment, presenting them across the three main marginal tax rates. The Investment Rating is based on the premium of the estimated risk-free, after-tax IRR adjusted for illiquidity over the prevailing 10-year bond rate. This measure enables the valid comparison of an investment with any other for nine (tax rate and risk tolerance) investor profiles. This facilitates the task of tailoring investment selection to the needs of the individual investor. Further, it provides ratings in which the advisers and investors can have unprecedented confidence. The ratings presented in the risk tolerance/tax rate matrix are only a representative sample of those available on PIR's unique individually tailored on-line investment selection system.

Visit www.pir.com.au or phone (03) 9670 7767 for assistance.

Except when investor gearing is involved, a lower marginal investor tax rate would normally attract a higher rating because investors on higher tax rates (nearly) always pay more tax. An investment which rates AA- for a 48.5% tax rate investor may be relatively better for that investor profile than for a 15% taxpayer for which the rating is AA+. A high rating for a higher marginal investor tax rate is generally less common than the same rating for a lower marginal investor tax rate.

Comparison across investor tax rates is not meaningful, nor is comparison across investor risk tolerances.

For ease of comprehension, the Investment Rating uses symbols similar to those applied by credit rating agencies. These ratings should not, however, be confused or compared with those used by credit rating agencies. The seven published Investment Ratings from lowest to highest are: **A- A A+ AA- AA AA+ AAA**. Projects with ratings below A- are not considered investment grade and reports on such projects are not published by PIR.

Investors should visit pir.com.au to view and download a detailed explanation of the PIR Investment Rating System or phone

(03) 9670 7767 for a complimentary copy.

RESEARCH CREDENTIALS

Under Corporations Act 2001, Property Investment Research Pty Ltd ("PIR") ABN 97 006 425 083 holds an Australian Financial Services Licence (No. 252599). Established in 1989, PIR is Australia's leading independent specialist research group on property related investments. PIR is the major supplier of independent property research to Investment Managers and Financial Advisers. Financial Advisers are required by s945A(1)(b) of the Corporations Act 2001 to properly research the financial products they recommend. PIR's independent research plays a vital compliance role for ASIC licensed Investment Advisers and Securities Dealers in that it: provides knowledge of investment promoters, their track record, the investment market and the risks involved; and ensures, where specialised in-house research is not available, reliable and impartial research is obtained.

STATEMENT OF INDEPENDENCE

Property Investment Research (PIR) has received fees from **Australian Affordable Housing Association Inc.** for the preparation of this report. PIR is a property investment specialist and applies a strict and rigorously independent process for production of research reports and has no direct or indirect vested interest in the success or otherwise of any investment offer evaluated by PIR. Under section 923a of the Financial Services Reform Act there are restrictions and penalties relating to the misuse of the word 'independent'. Neither PIR nor its directors, its employees or associates receive success fees, commissions, or remunerations based on transaction volume, gifts or any other peripheral benefits that may materially influence the direction of reports. Additionally PIR's independent ownership means it has neither potential conflicts nor vested interests, such as those arising through ownership by real estate, stockbroking, financial planning or fund management organisations. Furthermore PIR has a policy of not entering into any agreements or alliances with product providers.Neither PIR Directors nor PIR personnel or PIR consultants directly connected with the production of this report hold substantial interests (if any) in the securities analysed in this report.

DISCLAIMER

This independent research report was not prepared for inclusion in, or in connection with any Product Disclosure Statement or other offer document and should not be relied upon to provide all the necessary information for investment decisions. Although great care has been taken to ensure the accuracy of this report, PIR gives no warranties in relation to the statements and information contained herein and disclaims all liability arising from any persons acting on the information and statements in this report. PIR reserves the right to change its opinion, ratings and/or withdraw the report at any time on reasonable grounds. PIR research provides general opinion and not personal securities recommendations. All investors are strongly advised to consult professional financial advisers whose role it is to provide appropriate investment advice, taking into account an individual investors' investment objectives, financial situations and particular needs. PIR assumes no responsibility or obligation to provide updates on this published report. This report is prepared and issued by PIR for the purpose of the assessment of the investment in this scheme. This assessment is valid for investment purposes for a period of six months on the provision that no material changes are effected. Please consult the Manager or your financial adviser for further information.

Richard Cruickshank, Managing Director.

To find out more about Property Investment Research (PIR), visit http://www.pir.com.au