

APN REGIONAL PROPERTY FUND

FUND UPDATE

OCTOBER 2016

APN | Property Group
20 YEAR ANNIVERSARY 2016

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Fund Overview

- Portfolio comprising two A-grade office buildings in Newcastle (Australia's 7th largest city)
- Stable income underpinned by 42% leased to government tenants and 40% leased to national corporate tenants
- Fixed annual rent increases of 3.5% to 5%
- 99% occupied with a diversified tenant mix
- WALE (by income) of 3.2 years
- Current gearing of ~35%¹
- 8.56% pa² distribution yield (paid quarterly)
- Listed on NSX (Code: APR)
- NAV per unit of \$1.11
- Potential future additional liquidity event



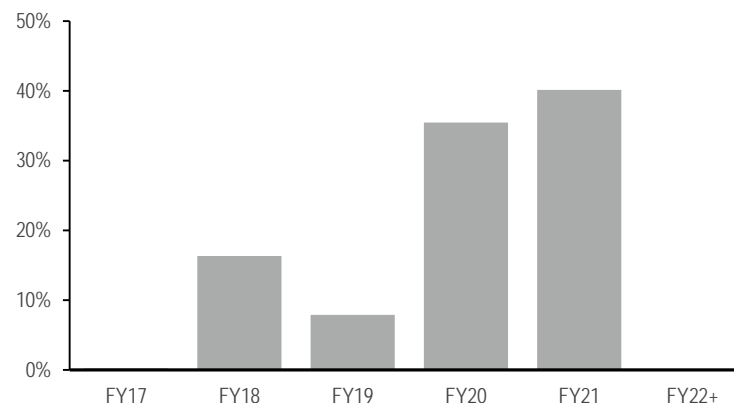
1. Calculated as total bank debt of \$15m divided by portfolio value of \$43.5m.

2. Calculated as FY17 distribution rate of 9.50 cents per unit divided by current NAV of \$1.11 per unit.

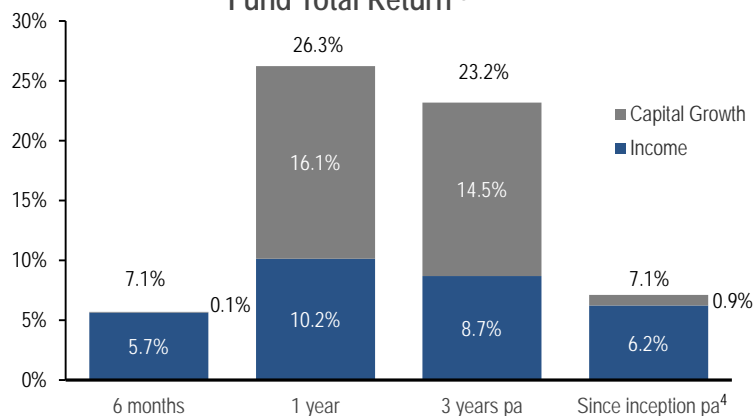
Fund Overview (continued)



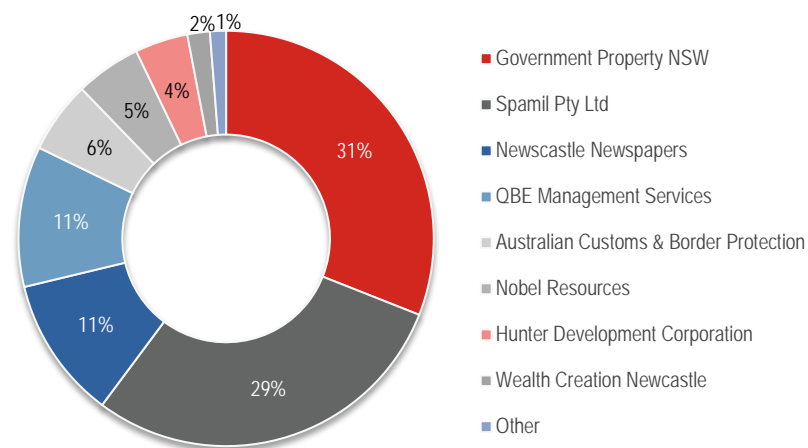
Lease Expiry Profile (by income)



Fund Total Return ³



Tenant Profile (by income)



1. Calculated as total bank debt of \$15m divided by portfolio value of \$43.5m.
2. Calculated as FY17 distribution rate of 9.50 cents per unit divided by current NAV of \$1.11 per unit.
3. Performance is based on original fully paid units at \$1.00. Past performance is not necessarily a guide to future performance.
4. Fund inception date of 28 October 2004.

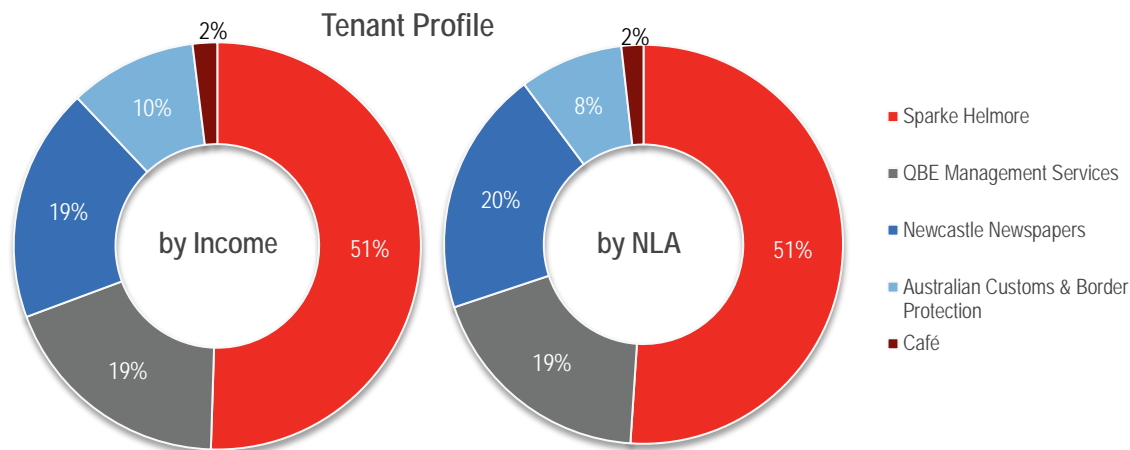
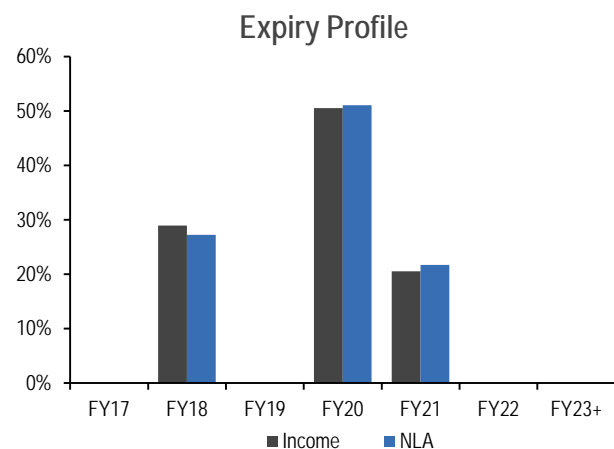
Property 1 – 28 Honeysuckle Drive

Overview

- Built in 2002, comprising seven storeys
- Five commercial tenancies and a rooftop telecommunications tenancy
- Modern building in the emerging Honeysuckle Precinct, located 1.5km to the west of the Newcastle City Centre
- 50% of the rental income sourced from a single tenant, who has been in occupation since the building was constructed
- QBE Management Services lease expires in October 2017, management confident of a lease renewal
- The Fund is committed to targeting a NABERS rating of 4.5 in order to continue to retain and attract good quality tenants

Metrics as at 30 September 2016

| | |
|---------------------------------|------------------------|
| Property Valuation ¹ | 25,000,000 |
| Passing yield | 8.96% |
| Total NLA | 5,330 m ² |
| Car parking | 76 secured spaces |
| Base rent (pa) | \$2.24 million |
| Annual reviews | Fixed (3.5% – 5%) |
| Occupancy | 100% |
| Weighted Average Lease Expiry | 2.80 years (by income) |



1. Based on an independent valuation

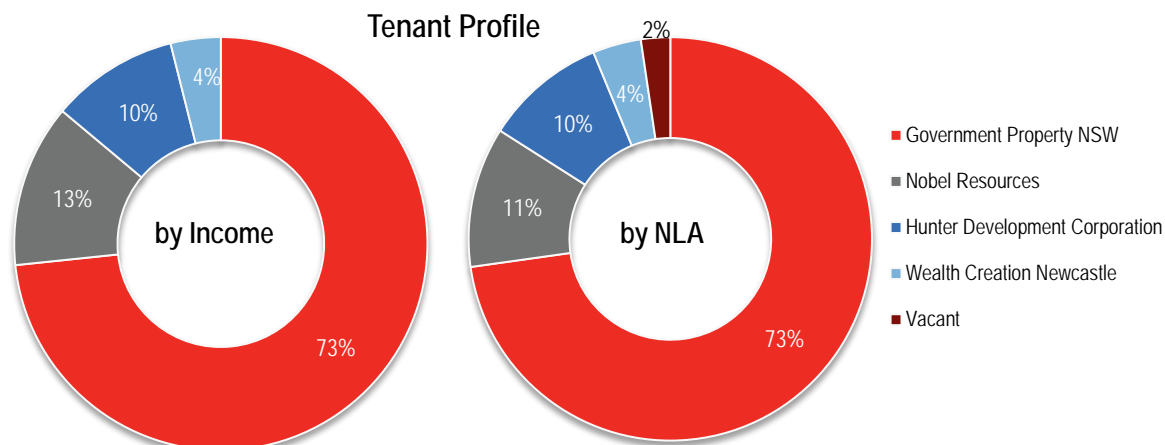
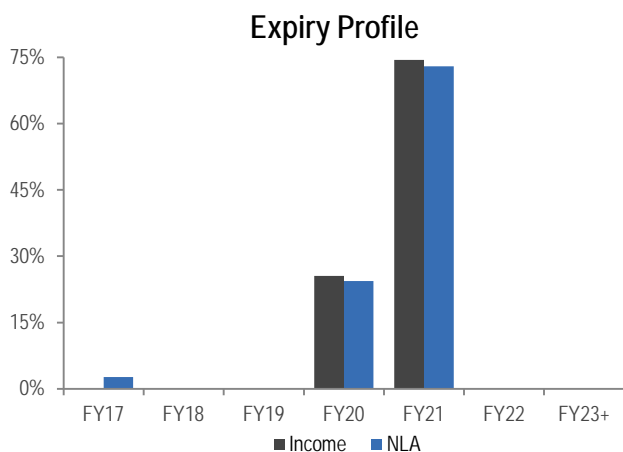
Property 2 – 26 Honeysuckle Drive

Overview

- Neighbouring 28 Honeysuckle Drive, this building was constructed in 2005, comprising seven storey's
- Removal of the heavy rail line directly behind the building has increased pedestrian access ways to and from the Honeysuckle Precinct
- Five commercial tenancies and two retail tenancies
- 86% of the rental income sourced from various NSW Government tenants
- The Fund is committed to targeting a NABERS rating of 4.5 in order to continue to retain and attract good quality tenants

Metrics as at 30 September 2016

| | |
|---------------------------------|------------------------|
| Property Valuation ¹ | 18,500,000 |
| Passing yield | 8.93% |
| Total NLA | 4,141 m ² |
| Car parking | 90 secured spaces |
| Base rent (pa) | \$1.67 million |
| Annual reviews | Fixed (3.5% – 4%) |
| Occupancy | 98% |
| Weighted Average Lease Expiry | 3.69 years (by income) |

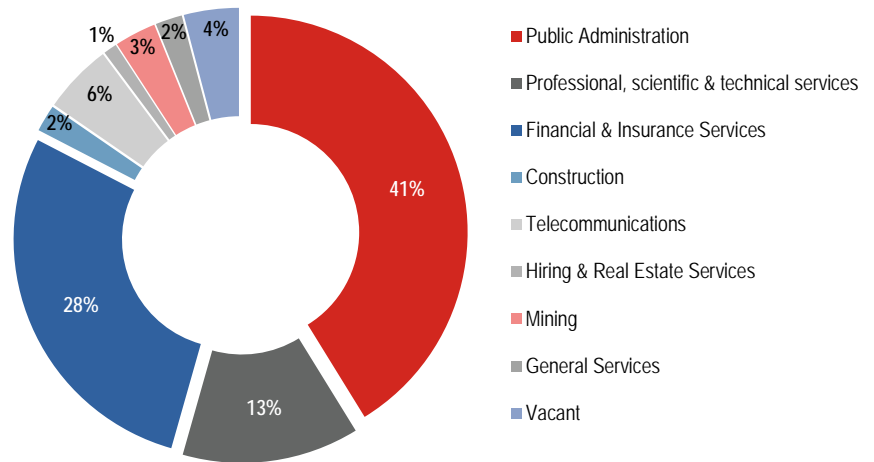


1. Based on an independent valuation

Newcastle: Australia's 7th largest city

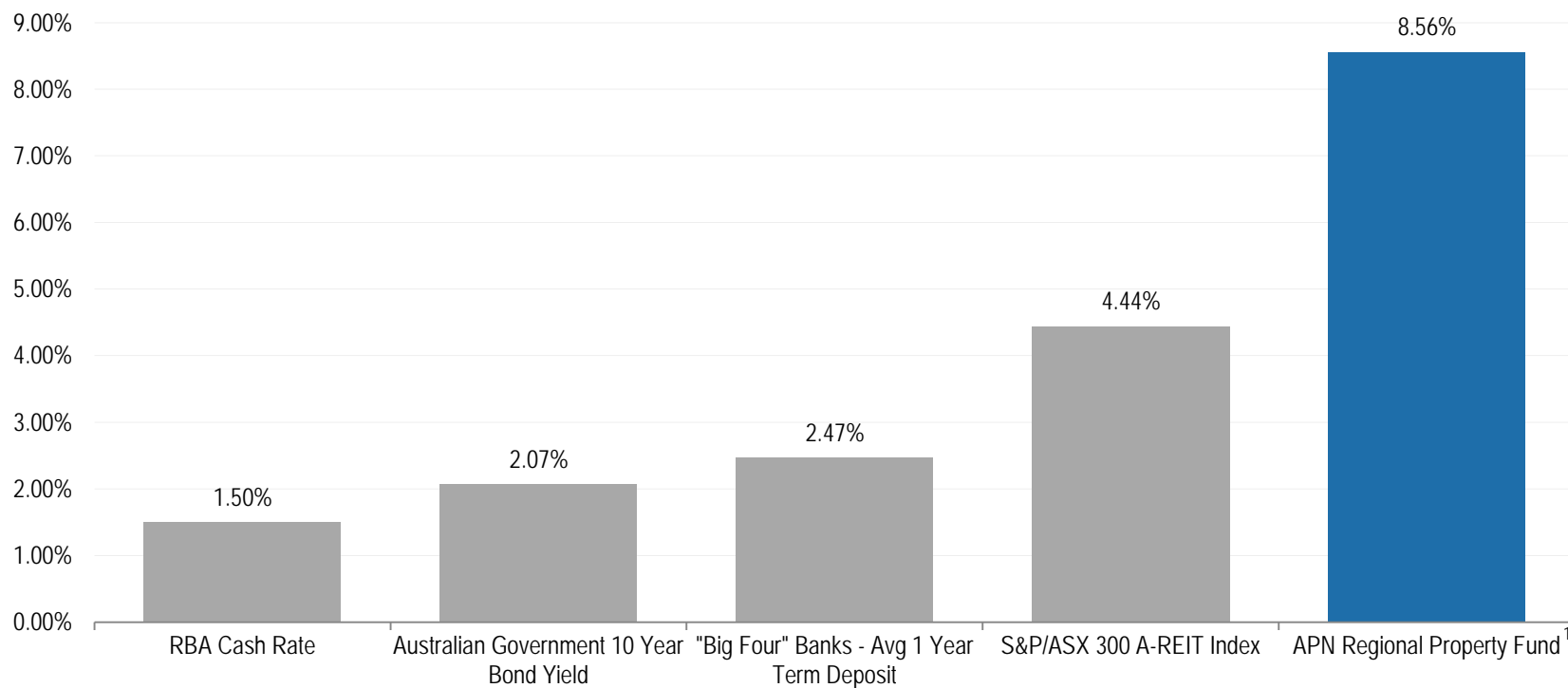
- Newcastle is located 162 km north east of Sydney CBD
- The Newcastle metropolitan area is the second most populated area in the Australian state of New South Wales
- Young demographic structure with 54% of residents aged 39 or below
- Strong population growth projected over next 15 years, with 42% of this growth expected within the dominant working age group (20 – 64)
- Gross Regional Product (GRP) of \$38.2 billion, significantly above other regional NSW centres
- Diverse economy with no single industry contributing more than 16% to GRP
- A-grade office space represents approx. one third of total office space in Newcastle. This portfolio makes up ~10% of the total A-grade office space
- Dominant tenant within the A-grade market is Public Administration, with State and federal Government Agencies representing 41% of the A-grade market
- Newcastle A-grade vacancy rate of 4.1% as at August 2016, making it one of the tightest A-grade markets in the country

Newcastle A-grade office tenants by Industry



Source: Colliers International

Comparative Income Yields



1. Calculated as FY17 distribution rate of 9.50 cents per unit divided by current NAV of \$1.11 per unit.

APN Property Group Overview

As at 30 September 2016



-
- ▶ Specialist Australian commercial real estate investment manager
 - ▶ Established 1996
 - ▶ 13 Funds, 45 properties
 - ▶ 42 Staff, Melbourne based
 - ▶ Capital light, co-investment model
 - ▶ 'Property for income' investment philosophy
 - ▶ Market capitalisation of manager approximately \$129 million

APN Property Group Overview (continued)

Overview

APN PROPERTY GROUP IS A
SPECIALIST REAL ESTATE
INVESTMENT MANAGER



Philosophy

PROPERTY FOR **INCOME**



Approach

INVESTMENT
PERFORMANCE



OUTSTANDING
SERVICE



Additional Information

For additional information on the Fund including the audited financial statements for the year ended 30 June 2016, please visit the APN Property Group website at www.apngroup.com.au

APN | Regional Property Fund

ARSN 110 488 821

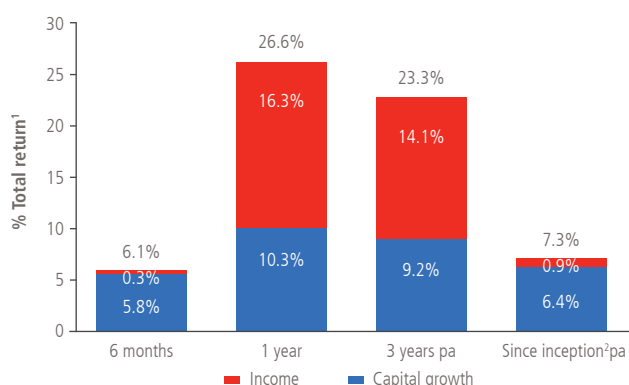
Fund overview

The APN Regional Property Fund (Fund) is a direct real estate fund listed on the National Stock Exchange (NSX code: APR). The Fund is invested in two office properties located in Newcastle, New South Wales.

The Fund comprises two A-grade office buildings located in the Newcastle CBD. Major tenants include various Government departments, Noble Resources, Fairfax News Media and Sparkle Helmore Lawyers.

Performance update

The Fund distributed 10.15 cents per unit in the year ended 30 June 2016. The graph below reflects performance to 30 September 2016.



- 1 Performance is based on original fully paid units at \$1.00.
Past performance is not necessarily a guide to future performance.
- 2 Fund inception date 28 October 2004.

Manager's report

On a like for like basis, total net property income across the portfolio increased by 7.61% during the year ended 30 June 2016 as a result of the fixed annual rent increases as well as the lease up of an existing vacancy. Occupancy now stands at 99.0%, with only one small vacancy remaining. Rental arrears remain at a minimal 0.1% of net property income.

The Fund's portfolio was last revalued at 30 June 2016 resulting in an increase in the portfolio's value of 10.83% to \$43.50 million compared to 30 June 2015. This increase was driven by the increase in net property income as well as tightening of the portfolio's weighted average cap rate from 9.31% to 8.70% as a result of stronger demand for assets of this type and quality.

In the last 12 months, the Fund has also entered into agreements to lease and extend circa 4,500 sqm of office space across both office buildings, thereby increasing the weighted average lease expiry profile (by income) from 2.4 years at 30 September 2015 to 3.2 years as at 30 September 2016.

As a result of the increase in net property income mentioned above, the Fund's distributable earnings have also increased, leading to final distributions in FY16 of 10.15 cents per unit which was a 16.7% increase on the FY15 of 8.7 cents per unit. We note that the 10.15 cents per unit for FY16 included a special one-off distribution of 1.15 cents per unit paid in July 2016.

AT A GLANCE as at 30 September 2016

| | |
|--------------------------------------|--|
| NAV | \$1.11 |
| Unit price revaluation | The underlying assets are valued six monthly through the Fund's financial statements. Daily unit price is reflected by pricing on the NSX. |
| Property value | \$43.5 million |
| Borrowings (loan to value ratio) | 34.5% |
| Weighted Average Lease Expiry (WALE) | 3.2 years (by income) |
| Occupancy | 99% |
| Fund commenced | 28 October 2004 (listing on NSX) |
| Fund maturity | 30 June 2018 |
| Minimum investment | No minimum. This Fund is available to new investment by investing via the NSX |
| Redemption facility | Investors wishing to sell their investment in the Fund may seek to sell their units via the NSX |
| Annual distribution | 9.50 cpu |
| Distribution yield | 8.6% |
| Distribution payments | Quarterly |
| Distribution reinvestment | Not available |
| Sector allocation by value | 100% Office |
| Geographic allocation (by value) | New South Wales: 100% |

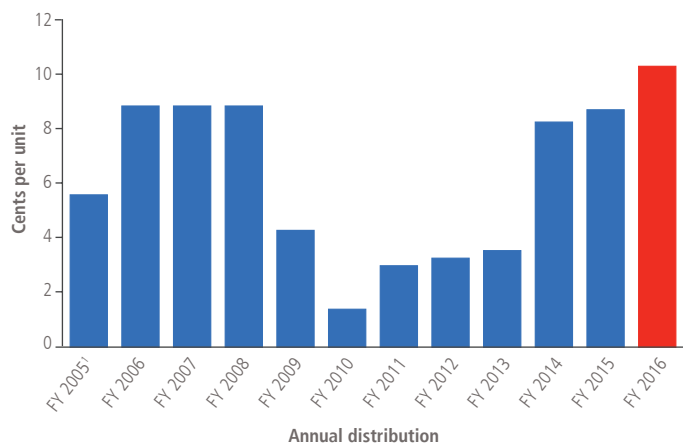
The annual distribution rate for FY17 has been set at 9.50 cents per unit, which reflects a yield of 8.56% on the net asset value and 9.50% on the original \$1.00 of equity invested.

The Fund's current net asset value per unit of \$1.11 reflects the increase in the June 2016 property valuations and represents an increase of 18.58% compared to the net asset value at September 2015. The Fund's gearing has also reduced to 34.5% from 38.2% at the September 2016 as a result of the valuation uplift.

Management are close to finalising the scope of works necessary to obtain a target NABERS rating of 4.5. A higher NABERS rating for the buildings would be beneficial for retaining the existing Government tenants as well as attracting new tenants to the buildings.

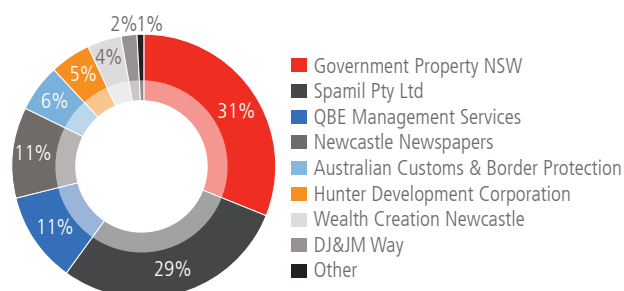
APN is currently in the process of considering a liquidity strategy to allow all those investors who wish to exit to be able to do so and will write to investors in the coming months.

Historical distributions



¹ Represents part year.

Income split by tenant



Important distribution details / dates

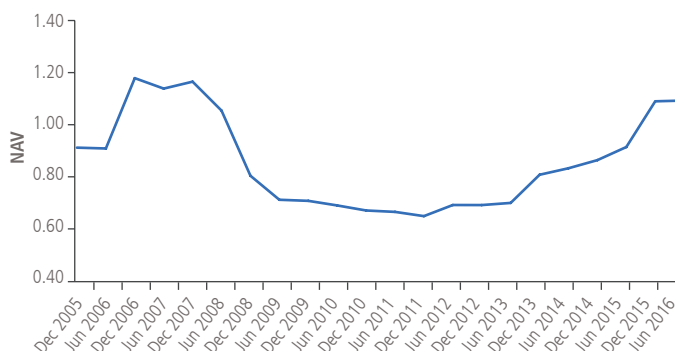
Distribution payment Accruing at the end of each quarter ending September, December, March and June. Payment is made on the 25th day following quarter's end, unless that day is a non-business day in which case the distribution will be paid on the following business day.

Distribution statement Dispatched at the time of payment above.

Tax statement Dispatched annually (by end of August).

Historical unit values

The Fund is listed on the National Stock Exchange (NSX code: APR). For your reference we have provided the historical Net Asset Value (NAV) per unit.



Investment team members

Tim Slattery | Executive Director

Chris Brockett | Head of Direct Property and Fund Manager

APN Property Group

APN Funds Management Limited (APN FM) is a wholly owned subsidiary of APN Property Group Limited, an ASX listed company (ASX code: APD) that manages approximately \$2.2 billion (as at 30 June 2016) of real estate and real estate securities on behalf of institutional and retail investors. APN is an active investment manager with a concentrated focus on income, and has been investing on behalf of its clients in commercial real estate since 1996.

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