

## In Brief

This Investor Update for the PFA Diversified Property Trust includes important information on the following:

- Recent Property Acquisitions
- Sale of 388 Queen Street
- A Further Special Distribution
- New Capital Raising



## 388 Queen Street sold 110% above book value and swapped for Foxtel Call Centre

On 28 June 2007, the Trust contemporaneously settled the sale of 388 Queen Street, Brisbane for \$40.0 million and the acquisition of the Foxtel building located 1-21 Dean Street, Moonee Ponds for \$28.50 million.

388 Queen Street was purchased in 2001 by the Trust for a purchase price of \$16.0 million. The sale price of \$40 million is \$21 million above the property's book value at the time of sale and a **2.88 cents per unit Special Distribution has been announced as a consequence (please see page 4 for further details).**

The Foxtel property is 100% leased by Foxtel Management Pty Ltd on a 10 year remaining lease through to March 2017, with three four year options to renew. Foxtel operates a national Customer Solutions Centre from this property, which directly employs over 750 people.

The property is situated at 1-21 Dean Street, Moonee Ponds approximately 6 radial kilometres north-west of the Melbourne CBD. The property is located adjacent to the south-west corner of the Moonee Valley Racecourse whilst other surrounding development generally comprises a mix of established residential, retail and commercial

properties. The property is also close to public transport services and within easy access to the City Link tollway.

The property was purpose built by Foxtel in 2004 for its own occupation. It consists of five levels (including basement car park) and has a net lettable area of 7,136m<sup>2</sup>. The building design features a central, four level high, atrium with a translucent ceiling and suspended stairways within the void. The lift core and peripheral offices are positioned at the eastern and western ends of the building, with the result being virtually uninterrupted light from the extensively glazed northern and southern facades (and the atrium).

In addition to 68 basement car spaces, the property also provides 182 spaces within 4 split levels of deck parking to the eastern side of the office building.

The Foxtel property was acquired at a price that represents an initial yield of 7.2% or \$4,008 per square metre. The 388 Queen Street property was on the other hand sold at an initial yield of 5.2% based on current rentals.

PFA's Managing Director, Mr Chris Morton, said "Following Trinity's offer to acquire

388 Queen Street, and their willingness to swap one of their assets as a part of the transaction, we identified from their portfolio the Foxtel property as a suitable acquisition for the Trust. We believe that it is an opportune time to dispose of the 388 Queen Street property given the strategic nature of the buyer, the current position of the Brisbane commercial office market cycle and the property's lease profile following the extension of the Suncorp lease to 2012."

"We have been gradually reducing the Trust's exposure to the Brisbane office market as part of our ongoing diversification strategy. The acquisition of the Foxtel property provides an opportunity for The Trust to increase its geographical diversification into the Melbourne office market, where the Trust currently has minimal exposure. We are of the belief that the Melbourne office market offers value at this time."

"This property acquisition is attractive for the Trust given its strong lease profile and a new modern building that will require limited capital and maintenance expenditure in the future," said Mr Morton.

## Product Disclosure Statement No. 5



A new product disclosure statement ("PDS No. 5") to invest in the PFA Diversified Property Trust was recently released. Key features and benefits of this latest PDS include:

- Minimum investment is \$5,000 and then in multiples of \$1,000.
- Forecast distributions are 9.80 cents per unit per annum\* during the 2007/08 financial year. This equates to an annualised distribution rate of **8.03% per annum** when calculated on the offer price of \$1.22 per Unit.
- **71%\*\*** of the forecast distributions are expected to be **Tax Deferred** in the financial year 2007/08.
- Nil entry fees.
- **Offer price \$1.22 per unit.**
- A \$493 million property portfolio of quality investment grade property including the acquisition of the Citigate Perth hotel.
- The proceeds of this offer will be used to provide cash reserves to enable funding of future property acquisitions.

The offer is expected to close 25 August 2007. However, PFA may close the offer at any time.

\* The forecast distributions and related underlying assumptions are set out in detail in section 6.2 of the PDS.

\*\* For further information in relation to the tax deferred percentage please see section 6.2 Note 12 of the PDS.

For further information or to request a copy of the PDS, please contact your financial adviser. If you do not have a financial adviser then please call us on 1800 687 170. Alternatively, you can view PDS No. 5 on our website at [www.pfalt.com.au](http://www.pfalt.com.au).

# Acquisition of the Octagon, Parramatta

In May 2007, the Trust acquired a 50% interest in the Octagon, a commercial office building located at 110 George Street, Parramatta for \$39.0 million for the 50% (\$78 million for the 100%). The remaining 50% of the property was acquired by the Clarence Property Corporation Limited as responsible entity for the Westlawn Property Trust (a \$350 million property trust).

The Octagon is located within the heart of the established financial district of the Parramatta CBD and has dual street frontage onto Phillip and George Streets. It is within close proximity to public transport facilities including the recently upgraded transport interchange for train and bus access as well as the Rivercat which operates between Circular Quay and Parramatta.

The Octagon is a modern seven storey commercial building comprising ground floor lobby, retail and office space as well as 6 upper levels of quality office accommodation spread across 8 pods. The property also comprises 2 levels of security basement parking for approximately 350 cars.

The property has a unique design by an internationally lauded architect and features office space which is divided into two groups of 4 octagonal pods connected by pedestrian bridges from a central lift tower utilising glass backed lifts. The building features excellent natural light and a central atrium. The property was constructed in 1990 and has a 4 star ABGR rating.



The property's major tenants within the commercial office component include the Roads and Traffic Authority (RTA) and Insurance Australia Group (IAG). IAG is the largest general insurance group in Australia with its brands including NRMA, SGIO, SGIC, CGU, Swann and State. RTA and IAG account for 81% of the property's net lettable area. The property also has 15 ground floor retail tenancies. The weighted average lease expiry is 2.1 years, which is supplemented by \$3.0 million of rental support to assist with the building's current vacancy level.

PFA's Managing Director, Mr Chris Morton, said "Whilst the property has a relatively short lease expiry profile, we are confident of the strengthening Parramatta leasing market as evidenced by the fall in vacancy rates over the past 12 months. The property has high design quality and also provides very competitive rental levels compared to new property developments which may become available in the market in the future. The property has flexible floor plates which uncommonly enables it to accommodate both smaller and larger tenant requirements. In addition, it has a high car parking ratio which further enhances its lettable in a market such as Parramatta."

The property was purchased at an initial passing yield of 8.1%. The price equates to a fully leased yield of 8.7%.

The acquisition of this property was funded from existing cash reserves.



# Trust Acquires Perth Hotel P

In June 2007, The Trust purchased a hotel property located at 707 Wellington Street, Perth for \$52.0 million.

The property is a four star hotel, comprising 276 guest rooms, a restaurant, bar and 7 conference rooms. The hotel is located on Wellington Street, approximately 1 kilometre west of the Perth CBD.

Wellington Street is a major east-west thoroughfare through the Perth CBD and is close to public transport. The precinct surrounding the hotel is being upgraded and is on the boundary of the proposed inner-city Northbridge Link, a significant proposed redevelopment to link the Perth CBD and the suburb of Northbridge, a lively cultural, restaurant and nightlife hub. Part of the redevelopment includes the construction of the 14,000 seat indoor Perth arena and car park located opposite the hotel.

The hotel was opened in 1985 and has been operating as the Hotel Grand Chancellor,

Perth. The hotel is now leased to Citigate Perth Pty Ltd for 10 years and managed for that company by Mirvac Hotels Pty Limited under its Citigate brand.

Mirvac currently manages over 35 hotels and resorts throughout Australia and New Zealand. Some of Mirvac's hotel brands include Sebel, Quay Grand, The Como, Quay West, Sea Temple and Citigate.

PFA's Managing Director, Mr Chris Morton, said "We are very positive about the prospects for the Australian hotel market and the increased demand for rooms and room rates in the 4 star hotel market. This hotel is well located within the Perth CBD particularly given the proposed civic redevelopment that is occurring in the immediate surrounds to it. The property offers opportunities for extensive improvement through re-branding, intensive management and marketing."

"The Perth hotel market is showing positive signs for growth, with an increase in domestic

visitors to the region and analysis of data from the Australian Bureau of Statistics for the Perth region suggesting occupancy has shown continual growth from 2002 to 2006. The market is displaying strong occupancies, with room rate growth increasing at high levels due to the demand."

"The Trust now has 2 hotel properties within its portfolio, with the hotel sector currently representing approximately 14% of the Trust's portfolio. We are very comfortable with this level of exposure to the hotel market. However, it is not our current intention to further increase the hotel sector weighting above this percentage."

The property was purchased at a price of approximately \$190,000 per room and a capitalisation rate of 8.0%.

The acquisition of this property was funded from existing cash reserves and a further advance under the Trust's debt facilities.

## Leasing Update

**The Trust portfolio (based on income and including rental support arrangements as a letting) continues to have a low vacancy rate of 1.0%. We are however, pleased to report, on a number of activities within the Trust's property portfolio.**

### Civic Tower, Sydney

In PDS No. 5, we reported that 3 floors of Civic Tower were vacant. We can now advise that heads of agreement has now been reached to lease these vacant floors. The signing of these leases is imminent. Following the signing of these leases, the property will be fully let. This is an excellent leasing achievement over the 18 months that the Trust has owned its 50% interest in the property and is testimony to the active management focus that is brought to the Trust's properties.

### 706 Mowbray Road, Lane Cove

At the time of acquiring this property, there was approximately 1,900m<sup>2</sup> of vacant space which is being supported by rental guarantee from the vendor of the property. We can now advise that the property's major tenant, Atlab, has signed a lease for a further 850m<sup>2</sup>. The lease for this additional space will expire in March 2018. Atlab now lease approximately 56% of this property's net lettable area.

### The Precinct, Coorparoo

The area surrounding this property is currently undergoing significant change. Brisbane's Eastern Busway is currently under construction and the new Coorparoo Junction busway station will be located opposite this property. The location of the new busway provides an opportunity for a remix of some of the tenancies at the Precinct and also an opportunity for the relocation of other tenants from within the property's vicinity.

### AAPT Centre, Richmond

As previously advised, as part of the acquisition and agreed AAPT lease arrangements, provision has been made for the Trust to fund up to \$3 million in fitout and refurbishment of this property. Plans for this refurbishment have now been finalised and the commencement of works is due to occur soon. The AAPT rent will increase upon the completion of these works.





*Citigate Perth, shown above as Hotel Grand Chancellor*



*Citigate Perth reception*

## Sale of Surplus Land at 303 Sevenoaks Street, Cannington, WA

In May 2007, the Trust entered into a contract for the sale of the surplus land (approx. 1.75 hectares) at 303 Sevenoaks Street, Cannington, Perth, WA for an agreed sale price of \$5.4M.

The sale of the 1.7524 hectares is subject to the approval of a Subdivision Plan by the Western Australian Planning Commission upon acceptable terms to the Trust based on cost of compliance with and nature of any approval conditions. Previous product disclosure statements issued by PFA have referred to the intention to dispose of this surplus land once development issues relating to it have been clarified. Settlement is due to occur following the issue of a separate Certificate of Title for the subdivided lot. Should subdivision approval occur then settlement should be anticipated to occur in the first 6 months of 2008.

303 Sevenoaks Street, Cannington was purchased in February 2005 and was valued at 30 June 2006 at \$48.8M (inclusive of the surplus land). The balance of the property (not including the surplus land) is substantially leased or licensed to the State Government of Western Australia.



# 390 St Kilda Road, Melbourne Acquisition

The Trust has recently entered into an unconditional contract to purchase a commercial office building located at 390 St Kilda Road, Melbourne for \$63.225M.

390 St Kilda Road is prominently located on the corner of Bowen Lane towards the northern end of the St Kilda Road office precinct, which connects with the Melbourne CBD. It is the tallest office building in this famous boulevard.

The property was constructed in 1976 and comprises 23 levels of office accommodation and 5 levels of basement carparking. The property has a net lettable area of 16,229m<sup>2</sup>.

The property provides quality office accommodation with good natural light and views from the building. The typical floor plates are 740m<sup>2</sup> in size and subdivide easily to accommodate the smaller St Kilda Road tenancy.

The property is fully let and has a weighted average lease expiry of 3.4 years. The property's main tenants include the Mayne Group, which presently occupies 3 floors, Australian Training Products, WT partnership and 'switched on knowledge'.

The balance of the property is occupied by 35 smaller tenancies ranging in size from 85m<sup>2</sup> to 502m<sup>2</sup>.

PFA's Managing Director, Mr Chris Morton, said "The acquisition of 390 St Kilda Road is the Trust's first significant office property acquisition in Melbourne, although it already has Melbourne exposure through the recently purchased Foxtel Call Centre as well as the AAPT Centre in Richmond and the Citigate Hotel in Flinders Street. We see the opportunity to acquire this property as good value within the St Kilda Road office market. The property is well located at the CBD end of St Kilda Road. Historically, it has had a very low vacancy rate and a high level of tenant retention. It is also well suited to the typical St Kilda Road tenant in terms of flexibility and affordability."

"We believe the outlook for the St Kilda market is positive, with limited new office space being added over the past 5 to 6 years. Vacancy rates for the precinct have been decreasing and there is potential for firming investment yields in this market."

"This acquisition continues our strategy for the Trust by increasing its geographical



diversification and seeking opportunities to value-add in markets in which the Trust has had limited exposure."

The property is being purchased at an initial yield of 7.3%.

Settlement of the 390 St Kilda Road property is expected to occur late August 2007.

## 2.88 Cents Per Unit Special Distribution

As a consequence of the sale of 388 Queen Street, Brisbane it is the intention of PFA to make a special distribution to unitholders on the following terms and conditions.

### *Amount of special distribution:*

**2.88 cents per unit**

### *Record date for distribution:*

**31 July 2007**

Investors who become unitholders on the register after 31 July 2007 will not be entitled to this special distribution. Should a unitholder on the register as at 31 July 2007 subsequently sell their units they will still receive the special distribution subject to the conditions below.

### *Payment date:*

**On or about 14 September 2007**

### *Payment Method:*

Electronic funds transfer to the designated bank account currently advised by the unitholder for the purpose of general monthly distributions.

### *Capital Gains Tax:*

Unitholders on the register as at 30 June 2007 will be liable for the payment of any capital gains tax on the gain on the sale of the 388 Queen Street property. Advice as to the amount of this capital gain will be given in the 2007 annual taxation statement and distribution summary.

### **Background**

The special distribution is to be made from the capital profit which arose as a consequence of the sale of 388 Queen Street, Brisbane for \$40M.

No distribution reinvestment plan will be offered at the time of this special distribution.

# End of Financial Year

## Tax Return Time

To assist you with the completion of your tax return, your 2007 Annual Taxation Statement and Summary of Distributions is due to be sent during the 3rd week in August. You should not lodge your tax return until this information is received.

# Manager Update

In August 2004, the James Fielding Group acquired a 50% interest in Property Funds Australia Limited. James Fielding is now a wholly owned subsidiary of the Mirvac Group following Mirvac's acquisition of the James Fielding Group in January 2005. The Mirvac group is a leading diversified property group – listed on the Australian Stock Exchange.

The Mirvac Group has an option to acquire the balance 50% of the shareholding of PFA. This option can only be exercised between 27 August 2007 and 27 August 2008. Mirvac have announced that it is their current intention to exercise this option to acquire the balance 50% although it has not and cannot yet formally exercise such an option right. Should the Mirvac Group exercise this option right, it is likely that the composition of the board of Directors of PFA and the compliance committee of the Trust may significantly change, including the ongoing role of PFA's current managing director, Chris Morton.

The acquisition of the balance of the PFA company by Mirvac is not an acquisition of the Trust or of any units in the Trust.

From 1 July 2007, Mirvac Real Estate Pty Ltd took over the property management of most of the Trust's property portfolio. This means that Mirvac Real Estate are responsible for the day to day property management and rent collection duties, for which it will receive fees at arm's length commercial rates. This management was previously primarily carried out by Knight Frank.

## BSX Trading

During the 6 month period to 30 June 2007, the weighted average price per unit that units in the Trust have traded on the BSX has been \$1.18. This is an increase of 7 cents per unit from the previously reported weighted average unit price for the half-year ended 31 December 2006. The last trade at 30 June 2007 was \$1.17 per unit.

The total trade volume for the 6 month period was 3.14 million units. Comparatively the total trade volume for the previous half-year ended 31 December 2006 (i.e. a 6 month period) was approximately 1.78 million units.

## Annual Reporting

This year's annual report will provide further comprehensive details of the Trust's activity and financial performance. The annual report and audited accounts for your investment will be sent in late September. Alternatively, you will be able to view the annual report on the Investor Relations page of our website ([www.pfaltd.com.au](http://www.pfaltd.com.au)) or on the Announcements page on the BSX website ([www.bsx.com.au](http://www.bsx.com.au)). The BSX code for the Trust is PFD.

## Changing your bank details or moving

### Don't forget to let us know

To ensure that you keep receiving your monthly income distributions don't forget to advise us if you change your bank account details. Otherwise, the electronic credit distribution system rejects your funds transfer. Likewise, if you are changing your mailing address we need to be notified. Any changes need to be notified to us in writing.

### Investor Services Personnel

#### Who to contact?

If you have any queries about your investment, please contact our Manager – Investment Services, Bronwyn Risk or Mary Goodwin.

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## IMPORTANT NOTICE

Property Funds Australia Limited AFSL No. 224106 is the issuer of the PFA Diversified Property Trust (ARSN 097 860 690). A Product Disclosure Statement ("PDS") is available by contacting PFA on 1800 687 170 or by visiting [www.pfaltd.com.au](http://www.pfaltd.com.au). Investors should consider the PDS in deciding whether to acquire, or to continue to hold, the product. PFA is not licensed to provide financial product advice to retail clients in relation to the PFA Diversified Property Trust. The PFA Diversified Property Trust is not subject to a cooling-off period. Capital and investment returns are not guaranteed. Should you not wish to receive any further marketing material from PFA please contact us on 1800 687 170.