



# Quantum Property Syndicate No.11 and Quantum Property Trust No.11

## QUARTERLY REPORT

March 2005

### “370 Queen Street, Brisbane”

#### Overview

- ❖ Net Property Income for the March quarter of \$131,912,
- ❖ Property is 84% leased, ground floor suite and small suite on level six remain vacant, and the leasing of these spaces remains the number one priority,
- ❖ Net profit for the syndicate for the March quarter of \$28,893, and for the first three quarters to March 2005 of \$173,452,
- ❖ Net asset backing per interest at March of \$1.01,
- ❖ Earnings per interest for the Syndicate for the March quarter of \$0.002, and for the first three quarters to March 2005 of \$0.014, and
- ❖ No distributions paid to unit holders of the Trust.

(Report No. 4)



## Property Results and Analysis

The financial results of the property for the 3 months period, before syndicate expenses such as administration costs, management fees and custodian fees were as follows:

	<b>Mar 05 Actual</b>	<b>Mar 05 Budget</b>
Property rental income	289,357	275,125
Property expenses	(157,445)	(146,043)
<b>Net Property Income</b>	<b>131,912</b>	<b>129,082</b>

Net property income for the period was 2.2% (or \$2,830) above the budget. This was mainly due to the following;

- December quarter income for lease to Hutchison recorded in the March quarter,
- This was offset by some major repair work conducted on the air conditioning.

### *Tenancy details*

The property is currently 84% leased. There are three tenancies that remain vacant;

	<i>Area</i>	<i>Approx Income (pa)</i>
▪ Retail tenancy on ground floor	65sqm	\$50,000 to \$65,000
▪ Commercial tenancy at the rear of the ground floor	380sqm	\$100,000
▪ Commercial tenancy on level 6	179sqm	\$50,000

The Manager has received offers on all three tenancies, however as yet has not been able to agree to acceptable terms with any of these offers to secure a tenant for these vacant spaces. Given that these tenancies represent 16% of the gross lettable area it is crucial that tenants are secured for these spaces.

The Manager has received notice from the tenant occupying level 3 of the building that they will be vacating their tenancy at the end of their lease in September 2005. The current annual income from this tenant is approximately \$130,000 per annum. We have commenced marketing this space.

The Chemist, that occupies one of the ground floor retail tenancies lease expires in July 2005, we have had numerous discussions in regards to renewing their lease. At this stage the tenant has not committed to renewing or vacating the space, their current annual income is approximately \$85,000 per annum.



The leasing of the vacant spaces and the upcoming lease expiries has been the main focus of the manager, and continues to be the number one priority for the syndicate.

### *Capital items*

Repairs were carried out on the air conditioning of the building.

## **Syndicate Results and Analysis**

The Quantum Property Syndicate No.11 owns 100% of the property. Quantum Property Trust No.11 owns 25% of the syndicate. The trust results are determined annually (refer below for timing) and hence the results discussed below represent those of the syndicate only.

Net profit of the syndicate, shown in the table below is arrived at after deducting non property related expenses from net property income discussed above, such as custodian and management fees.

	<b>Mar 05 (Actual)</b>	<b>Mar 05 (Budget)</b>
Property Investment	11,659,739	
<b>Total Assets</b>	<b>12,737,976</b>	
<b>Total Liabilities</b>	<b>131,135</b>	
<b>Net Asset Backing (per interest)</b>	<b>\$1.01</b>	
Net Profit (March Quarter)	28,893	25,365
Number of Interests on Issue	12,480,000	12,480,000
<b>Earnings per Interest</b>	<b>\$0.002</b>	<b>\$0.002</b>

The net profit of the syndicate for the March quarter was 13.9% above budget (\$28,893 compared to the budget of \$25,365). Earnings per interest were \$0.002 compared to the budget of \$0.002.

The results for the first three quarters from July to March 2005 were 18.6% above budget (\$173,452 compared to the budget of \$146,248). This was mainly due to some timing differences in the recording of property expenses, and slightly higher than forecast income. Earnings per interest were \$0.014 compared to the budget of \$0.012.

The Manager notes that the above net profit figures include the amortisation of part of the syndicate establishment fee, being \$82,125 per quarter. The March quarter results after adding this amount back would be \$111,018 and for the half year \$419,827.



### ***Distributions to owners (Syndicate)***

Two types of interests in the Property were offered. Applicants either received a direct interest in the syndicate thus becoming an owner, or received units in the trust thus becoming a unit holder (e.g. via a Superannuation Fund). Some investors are both an owner and a unit holder. Owners pay for financing costs (yearly in advance) and pay an annual guarantee fee to the trust in consideration of the trust providing its assets as security for the benefit of owners.

### **Trust Results and Analysis**

As mentioned briefly above, given the limited number of transactions undertaken by the Trust during the year, the Trust financial results are only determined annually, after completion of the annual financial audit to be conducted during August. As noted in the product disclosure statement the Manager will determine the net income and any guarantee fee due to the Trust from the Syndicate and Owners.

### ***Distributions to unit holders (Trust)***

No distributions have been paid to unit holders. The manager had previously forecast that a distribution of 2.5¢ per unit would be paid in respect of the March and June quarter. However at this stage the manager does not feel that it would be in the best interests of the trust and syndicate to pay the March distribution based upon the following reasons;

- The property is not fully leased and the vacant spaces represent approximately \$200,000 income per annum,
- The upcoming lease expiries this calendar year, which represent approximately \$215,000 income per annum, of which some may be lost if the tenants don't renew their lease and there is a period of vacancy till new tenants are found, and
- Potential for large upfront cash incentives, that may need to be offered to secure tenants to fill any vacancies in the property.

The initial capital raising provided for the payment of some of the existing incentives and potential vacancies, via additional capital being raised and the ability to call upon the second mortgage to increase (extra 5%), so the overall LVR on the property was 75%.



However as was noted in first quarterly report, the first mortgage financier, CBA, at the last minute adopted a lower valuation number which changed the amount they would lend, therefore requiring some of the additional second mortgage funds (\$292,500) to be called to effect settlement. CBA have maintained that they will increase the amount they lent to the original specified amount upon receipt of a valuation that provides the original valuation amount. To achieve this, the syndicate needs to lease all of the vacant space.

This means that of the additional facility available of \$547,500, there is only \$255,000 left to call up. The manager has requested that the financier provide these funds.

The manager therefore has decided to withhold the March distribution, and at this stage would be looking to make the June distribution as forecast. Below is a forecast of the distribution schedule for the period till 30 June 2005;

<b>Period (Quarter Ending)</b>	<b>Payment Month</b>	<b>Total Distribution</b>	<b>Cents Per Unit</b>	<b>Status</b>
September 2004	November 2004	\$0	0.00	
December 2004	January 2005	\$0	0.00	
March 2005	March 2005	\$0	0.00	Withheld (\$78K)
June 2005	June 2005	\$78,000	2.50	

Once the property is fully leased the Manager may then pay an additional distribution, at this stage the Manager is unable to quantify the amount or timing of this distribution.

## Newcastle Stock Exchange (NSX)

Please note that the Trust units are listed on the NSX. Please refer to [www.newsx.com.au](http://www.newsx.com.au) for all announcements relating to the Trust.

*The Syndicate and Trust is only required to prepare an audited financial report annually and therefore this investment report aims to provide investors with more timely and detailed information with respect to the Syndicate operations throughout the year. The financial results reported in this report are unaudited*

## Key Performance Indicators

<b>Property Performance Indicators</b>	<b>March 2005</b>
Property yield*	5.7%
Net asset backing (per interest)	\$1.01
Occupancy (office)	84%
Book value	\$11.66m
Purchase price (June 2004)	\$10.95m
Capital expenditure (3 mths)	\$8,595

\* based on annualised net property income/purchase price