INVESTEC AUSTRALIA PROPERTY FUND
Incorporated and registered in Australia in terms of ASIC (ARSN 162 067 736)
Registered in terms of the Collective Investment Schemes Control Act No.45 of 2003
Operated by Investec Property Limited (ACN 071 514 246; AFSL 290 909) ("**Responsible Entity**")
Share code: IAP
ISIN: AU60INL00018
("**IAPF**" or the "**Fund**")

ACQUISITION OF LANDMARK OFFICE PROPERTY IN WELLINGTON, NEW ZEALAND

---

1. Introduction

The Fund is pleased to advise unitholders that it has entered into a contract for sale with Kiwi Property Holdings Limited (the "**Seller**") to acquire a prime grade office property known as The Majestic Centre, located at 100 Willis Street, Wellington, New Zealand (the "**Property"**) for NZD 123 175 000 (the "**purchase price**"). The Seller is a wholly owned subsidiary of NZX listed Kiwi Property Group Limited (NZX: KPG) ("**Kiwi Property**").

The purchase price equates to an initial yield of 7.1% (pre transaction costs), with the potential to increase this yield to 7.3% on a fully leased basis. The purchase price plus all transaction costs will be funded via the Fund's existing syndicated debt facility with Westpac and ANZ at an expected all in funding cost of 4.1% per annum.

The Property is the Fund's first investment into New Zealand and demonstrates management's commitment to seeking out opportunities that represent relative value. Management believes that the spread between prime grade office yields in Wellington and key Australian CBD office markets is currently attractive, particularly given recent firming of capitalisation rates in Australia.

Like Australia, New Zealand offers the Fund the opportunity to invest in a sophisticated and transparent property market underpinned by strong macro-economic fundamentals such as consistent GDP growth rates of between 2.0% – 3.5% over the last five years, low unemployment rates of 4.5%, low interest rates and a diversified economy. From a property perspective, unlike Australia, there is no stamp duty payable in New Zealand on the acquisition of property (which is typically 5.5% of the purchase price in Australia) and there is no capital gains tax on divestment of property held for passive investment.

The effective date of the acquisition of the Property is the settlement date under the contract for sale, which is scheduled for 11 December 2017.

2. Rationale for acquisition of the Property

The acquisition of the Property is consistent with the Fund's strategy of investing in well located, high quality assets. The Property represents an attractive investment for the following reasons:

- The Property is an iconic building located in a prime position within the Wellington CBD's 'Golden Mile'.
- The Property enjoys good accessibility to Wellington's public transport network which includes bus, train and pedestrian linkages, all located within a short walking distance.
- The Property is multi-tenanted with very strong tenant covenants including:
    - NZ Trade and Enterprise (12% of income) – a New Zealand Government agency responsible for the international growth of local companies
    - Opus International (12% of income) – an international infrastructure advisory and project management services company listed on the NZX
    - Ernst & Young (10% of income) – one of the largest multinational professional services firms in the world
    - Cigna Life Insurance (10% of income) – a Fortune 500 company that is a specialist provider of insurance products
- Close to 40% of income is underpinned by New Zealand Government tenants.
- The weighted average lease expiry is relatively long at 6.6 years by income.

- Systematic low vacancy in prime grade office assets in Wellington, with current vacancies at 0.4%.
- Low market incentives for prime grade office assets of between 7% – 8%, and falling.
- Long term prime grade rents growing at approximately 3% per annum, with potential for stronger rental growth due to low vacancy and limited new supply.
- Office rents at the Property are under market, providing an opportunity to enhance yield through active asset management.
- High barriers to entry for new development due to increasing construction costs and lack of future development sites given Wellington's prohibitive topography.
- Stable local economy that generally performs better than the national economy and which is underpinned by government and public administration services, an unemployment rate that is lower than the national average and an average household income that is higher than the national average.
- The Property has comparatively low occupancy costs when compared to neighboring prime office assets which should enable the Property to attract and retain quality tenants and/or achieve rental growth.
- The Property has recently undergone a NZD 87 500 000 seismic upgrade program which has resulted in the tower component of the Property achieving a 100% New Building Standards rating.
- A significant amount (100 000m²) of the Wellington office market has been either permanently withdrawn or requires significant structural engineering strengthening due to recent seismic activity, which will likely place upwards pressure on rents and help maintain strong tenant retention rates.
- The Wellington office market has experienced a flight to seismically compliant, quality buildings with larger floor plates for both public and private sector tenants.
- The purchase price is at a circa 30% discount to replacement cost.
- The acquisition rate per square metre of the Property of approximately NZD 5 000 is significantly below the rates per square metre of similar quality properties in key Australian CBD markets.
- The acquisition of the Property provides an opportunity to create a new relationship with Kiwi Property, New Zealand's largest listed property group with over NZD 3.4 billion of assets under management.

3. **Property specific information**

Registered description	Part Lot 1 Deposited Plan 62238
Title	Freehold
Sector	Office
Location	100 Willis Street, Wellington CBD
Year built	1991
Site area	3 617m²
GLA	24 469m² (22 147m² office; 2 322m² retail)
Rent per m²	NZD 465/m² gross office; NZD 490/m² gross retail
Vacancy	2.0%
WALE	6.6 years
Estimated transaction costs	NZD 200 000

The Property has been valued at NZD 123,175,000 as at 25 October 2017 by Colliers International (Wellington Valuation) Limited (NZBN 9429036617333). The valuer, Andrew Washington, is an independent Registered Valuer (registration certificate no.2772; practicing certificate number 614).

4. **Forecast information**

Set out below are the forecast revenue, operational net income, net profit attributable to equity holders and earnings available for distribution of the Property (the "**forecast**") for the 4 months ending 31 March 2018 and the year ending 31 March 2019 (the "**forecast period**").

The forecast has been prepared on the assumption that the acquisition of the Property will be implemented on 1 December 2017 (notwithstanding that the settlement date under the contract for sale is scheduled for 11 December 2017) and on the basis that the forecast includes forecast results for the duration of the forecast period.

The forecasts, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the board of directors of the Responsible Entity. The forecasts have not been reviewed or reported on by the independent reporting accountants.

The forecasts presented in the table below relate to the Property only and have been prepared in accordance with the Fund's accounting policies and in compliance with International Financial Reporting Standards.

	Forecast for the 4 months ending 31 March 2018 AUD'000	Forecast for the year ending 31 March 2019 AUD'000
Revenue (including straight line revenue adjustment)	**3 636**	**11 222**
Property expenses	(1 091)	(3 292)
Net property income	**2 545**	**7 930**
Fund and asset management fees	(221)	(663)
Net operating income before finance charges	**2 324**	**7 267**
Finance costs	(1 513)	(4 540)
Net profit attributable to equity holders	**811**	**2 727**
Less: straight line revenue adjustment	(1)	(15)
Distributable income pre-tax	**810**	**2 712**
Distributable income post-tax	**781**	**2 613**

The forecast incorporates the following material assumptions in respect of revenue and expenses:

1. The forecast figures are disclosed in AUD and have been converted at a rate of AUD/NZD 1.1141.
2. Contracted revenue is based on existing lease agreements including stipulated increases.
3. Leases expiring during the forecast period have been assumed to be re-leased within an average period of 5 months post the lease expiry date.
4. Of the rental income of AUD 3 636 098 for the 4 months ending 31 March 2018, 98.3% relates to contracted rental income, 1.7% relates to near-contracted rental income and 0.0% relates to uncontracted rental income.
5. Of the rental income of AUD 11 221 566 for the year ending 31 March 2019, 97.6% relates to contracted rental income, 1.7% relates to near-contracted rental income and 0.7% relates to uncontracted rental income.
6. Material expenditure items relate to Fund and asset management fees (approximately 13% of total expenses).
7. No material expenditure items have been increased in the forecast period ending 31 March 2019 by more than 15% over the previous financial period.
8. The finance costs assume an all-in cost of funds of 4.1% per annum for the Property with the interest payments being fixed with a cross currency swap to service the AUD debt component with the rental proceeds. At least 75% of the cost of the Fund's total debt will be fixed via interest rate swaps (in accordance with the Fund's interest rate hedging policy) for 5, 7, 8, 9 and 10 year periods.
9. Distributions are payable to unitholders attributable to the acquisition of the Property and are partially shielded by depreciation allowances.
10. Net property income related to the Property will be taxed in New Zealand. Net property income will retain its character as foreign sourced income and as such will not attract additional Australian withholding tax.
11. A fair value adjustment is recognised in relation to the transaction costs.
12. There will be no unforeseen economic factors that will affect the lessees' ability to meet their commitments in terms of existing lease agreements.

5. Categorisation

The acquisition of the Property is a category 2 transaction in terms of the JSE Listings Requirements and accordingly does not require approval by unitholders.

Johannesburg
13 November 2017

Financial Advisor and Sponsor
Investec Bank Limited