

# **ASIC REGULATORY GUIDE 46**

## **Unlisted Property Schemes – Improving Disclosure for Retail Investors**

December 2010

## Fund update – December 2010

### Westlawn Property Trust

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#### 1 Introduction

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- 1.1 In September 2008, ASIC introduced Regulatory Guide 46: Unlisted property schemes – improving disclosure for retail investors. The Regulatory Guide sets out eight disclosure benchmarks which responsible entities of unlisted property schemes are required to report against in order to assist retail investors in analysing the relative risks and returns associated with investments in unlisted property schemes.
- 1.2 This document has been prepared by Clarence Property Corporation Limited (**the Manager**) as the responsible entity of the Westlawn Property Trust (**Trust**) in order to update investors of the Trust's financial position.

#### 2 Gearing Ratio

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	Gearing
Current value	57.4%

- 2.1 The gearing ratio set out above indicates the extent to which the Trust's assets are funded by interest bearing liabilities. It gives indication of the potential risk the Trust faces in terms of its level of borrowings due to, for example, an increase in interest rates or a reduction in property values. The gearing ratio is calculated by dividing the total interest bearing liabilities of the Trust by the total assets of the Trust.
- 2.2 The assets and borrowings used to calculate the gearing ratio are consistent with those included in the Trust's latest audited financial statements (31 December 2010). There have been no material changes to the Trust's gearing ratio since then.
- 2.3 The Manager is of the view that the gearing levels of the Trust are appropriate for the current credit environment.

#### 3 Interest Cover

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	Interest cover
Current value	1.49

- 3.1 Interest cover gives an indication of the Trust's ability to meet interest repayments from earnings. Interest cover is calculated using the following formula:

$$\text{Interest cover} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{interest expense}}$$

- 3.2 EIBTDA (earnings before interest, tax, depreciation and amortisation) and interest expense used in the calculation are consistent with those included in the Trust's latest audited financial statements (31 December 2010).
- 3.3 Interest cover measures the ability of the Trust to service interest on debt from its earnings. It is therefore a critical indication of the Trust's financial health and key to analysing the sustainability and risks associated with the Trust's level of borrowing.

## 4 Trust Borrowing

Details of the Trust's borrowings at 31 December 2010 are as follows:

Lender	Facility	Facility limit (\$m)	Amount drawn down (\$m)	Interest Rate (Fixed or variable) *	Facility Maturity Date	Hedging Maturity Profile (\$m)				
						1 year	2 year	3 year	4 year	There-after
NAB	Bill Facility	\$110.0	\$110.0	Fixed	Mar 2013	\$0	\$0	\$0	\$0	\$110
NAB	Bill Facility	\$51.5	\$49.5	Variable	Mar 2013	N/A	N/A	N/A	N/A	N/A
MAYNE	Loan	\$6.0	\$6.0	Variable	Nov 2011	N/A	N/A	N/A	N/A	N/A
<b>Total</b>		<b>\$167.5</b>	<b>\$165.5</b>			<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$110</b>

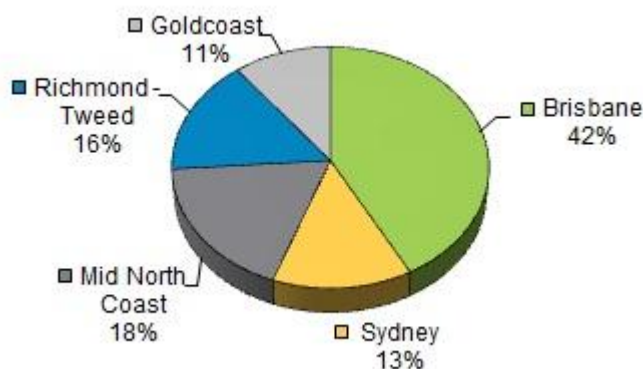
\* All facilities are interest only

- 4.1 The Trust's borrowings are secured against its assets. This means that repayment of these borrowings ranks ahead of investors' interests in the Trust. As a result, the borrowing maturity and credit facility expiry profiles of the Trust are important factors to consider. For example, credit facilities which are due to expire within a relatively short time frame can be a significant risk factor, especially when credit is hard to find. If the Trust fails to renew borrowing or credit facilities, the Trust's viability could be adversely affected.
- 4.2 Most borrowing facilities contain covenants relating to such items as gearing, interest cover or property leases which must be adhered to. A breach of a borrowing covenant may result in a lender requiring immediate repayment of the facility or imposing a freeze on any further draw-down on the facility.
- 4.3 If this occurs, the Trust could be forced to arrange alternative financing in a short timeframe. Depending on the prevailing market and circumstances, this could be difficult.
- 4.4 The Manager is not aware of any breaches or likely breaches of any of the lending covenants in relation to any of the above facilities.

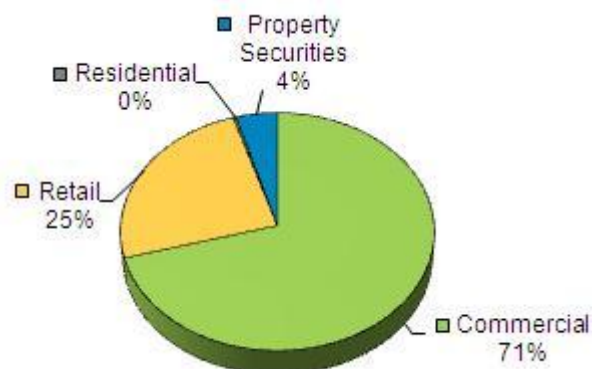
## 5 Portfolio Diversification

- 5.1 Set out below is a summary of the Trust's property portfolio. Specific information in relation to each of the properties can be found on our website [www.clarenceproperty.com.au](http://www.clarenceproperty.com.au).

### Geographic Diversification (by Value)



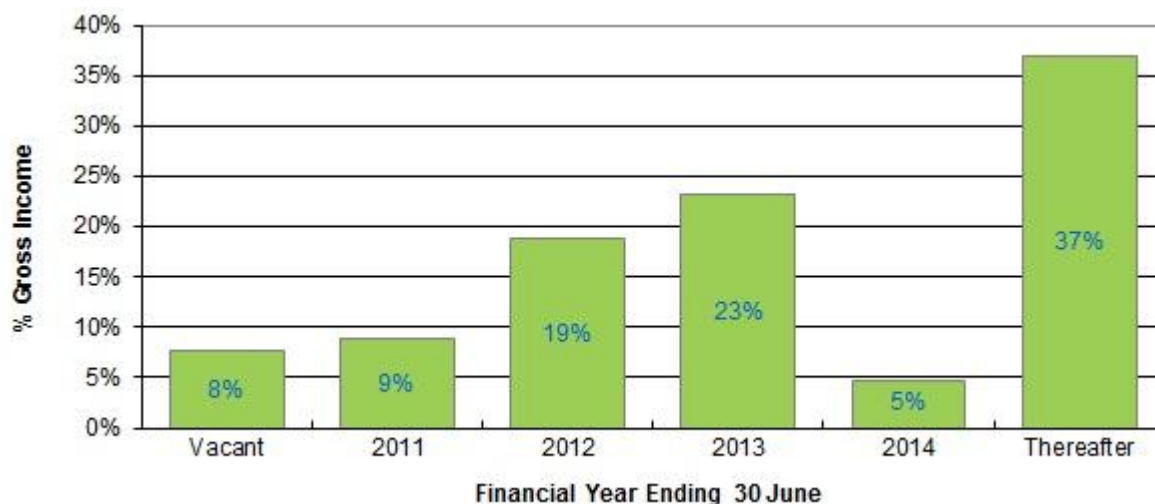
### Sector Diversification (by Value)



Location	No. Properties	Valuation
Brisbane	One	\$112,100,000
Gold Coast	One	\$28,175,000
Sydney	One	\$36,000,000
Mid-North Coast	Nine	\$48,735,000
Richmond - Tweed	Five	\$41,420,000
<b>Sub-Total Direct Portfolio</b>	<b>Seventeen</b>	<b>\$266,430,000</b>

Property sector	No. Properties	Valuation
Commercial	Seven	\$196,370,000
Retail	Seven	\$69,200,000
Residential	Three	\$860,000
<b>Sub-Total Direct Portfolio</b>	<b>Seventeen</b>	<b>\$266,430,000</b>
Property Securities	N/A	\$12,080,912
<b>Total Portfolio</b>		<b>\$278,510,912</b>

### Lease Expiry Profile (by Income)



The weighted average lease expiry (WALE) of the direct property portfolio is 3.11 years (as at 31 December 2010).

#### Top tenants by income

Tenant	Percentage of income
Roads & Traffic Authority	11.28%
NSW State Government (other)	8.31%
Country Energy	8.02%
Qld State Government	7.30%
Federal Government	6.19%
Wesfarmers	4.13%

- 5.2 The Trust's investment policy requires the Manager to promote diversification within the property portfolio. The Trust primarily invests in Australian non-residential property including commercial, retail and industrial property. It can also invest in entities (listed or unlisted) which primarily hold real property assets.
- 5.3 The Trust has a total investment of \$12,080,912 in non-direct property assets as at 31 December 2010, the most significant of which was a \$6,747,840 investment in the unlisted APN National Storage Property Trust. The APN National Storage Property Trust is a registered managed investment scheme that invests in self storage assets which are primarily leased out to a national operator on long term leases.
- 5.4 The Manager has adopted a strict policy for ensuring that the Trust will only invest in appropriate properties/investments which are reasonably expected to achieve satisfactory levels of income and capital growth for the investors. In order to accomplish this, the Trust's investment policy requires the Manager to:
- (a) obtain valuation reports prior to investing in a property;
  - (b) undertake an internal feasibility review of the property's rental income, expected pre-sales and development cost where relevant; and
  - (c) engage professional advisers such as lawyers, town planners and quantity surveyors to assist in undertaking a thorough due diligence in relation to the property prior to its acquisition.

The quality of the properties held by the Trust, including the quality of leases entered into over those properties, is a key element in the financial position and performance of the Trust. Generally the more diversified a portfolio, the lower the likelihood that an adverse event affecting one property or lease will have a material adverse impact on the overall portfolio.

## 6 Valuation Policy

Property	Value (\$m)	Cap Rate	Date	Valuer
72 – 78 Prince Street, Grafton	\$2.200m	10.50%	Mar 09	Hoolihan Valuations
21 – 25 Duke Street, Coffs Harbour	\$5.000m	9.50%	Dec 10	Taylor Byrne
98 – 100 Blundell Blvd, Tweed Heads	\$5.970m	10.00%	Mar 09	Hoolihan Valuations
8 – 12 Buller Street, Port Macquarie	\$15.100m	10.00%	Jun 10	Colliers International
Yamba Shopping Fair (Note 1)	\$18.325m	8.25%	Dec 10	Internal Valuation
29 Molesworth Street, Lismore	\$16.000m	9.13%	Mar 09	Hoolihan Valuations
307 Queen Street, Brisbane (Note 2)	\$112.100m	8.08%	Dec 10	Internal Valuation
Rocks Shopping Fair, S.W. Rocks (Note 3)	\$6.400m	8.80%	Dec 10	Internal Valuation
4 Zadoc Street, Lismore	\$6.200m	8.25%	Apr 10	Taylor Byrne
9 Treelands Drive, Yamba	\$0.850m	N/A	Jun 10	Taylor Byrne
Byron West Shopping Fair	\$9.400m	7.00%	Dec-08	Allsopp & Associates
Easy T Shopping Centre, Robina (Note 4)	\$28.175m	8.00%	Dec 10	Internal Valuation
110 George Street, Parramatta (Note 5)	\$36.000m	8.70%	Sep-10	Knight Frank
Tamar Shopping Village, Ballina	\$3.850m	7.00%	Jun-10	Taylor Byrne
Yamba Residential Properties	\$0.860m	N/A	Mar 09	Allsopp & Associates
<b>Total Direct Portfolio</b>	<b>\$266.430m</b>			

Note 1 – The last independent valuation was \$16.5m as at Jun 10. The property is currently undergoing an expansion of the supermarket and the as-if complete valuation is \$20.5m.

Note 2 – The last independent valuation was \$111.0m as at Jun 10.

Note 3 - The last independent valuation was \$7.5m as at Mar 09.

Note 4 - The last independent valuation was \$27.7m as at Jun 10.

Note 5 – The amount quoted represents the Trust's 50% ownership in that property.

- 6.1 The value of real property assets can be volatile, particularly when access to credit is constrained and more properties are on the market. A significant fall in valuation will mean an increase in the gearing ratio and may trigger a breach of loan covenants.
- 6.2 The Manager is responsible for ensuring that the valuation of each property accurately reflects market value. The Trust's loan covenants require that the direct property assets be independently valued at least once every two years. The Manager will only engage registered valuers to prepare independent valuation reports which comply with all relevant industry standards and codes. No valuer may conduct any more than two consecutive valuations on the same asset. The valuer must also be on the lender's approved panel and be registered under the relevant state or territory valuer registration regime. The Board also relies upon the expertise of the Managing Director who is a licensed real estate agent and a registered property valuer.

- 6.3 Any holdings in listed property trusts are valued daily on their closing market value. Holdings in unlisted property trusts are valued based on the last publicly quoted exit price if available, otherwise at cost.

## **7 Related Party Transactions**

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- 7.1 The Manager has a strict policy in regard to entry into transactions with related parties which requires it to ensure these transactions are entered into on commercial arms length terms and the details of these transactions are disclosed to investors.
- 7.2 Any transaction which may potentially be characterised as a related party contract must be brought to the attention of the Compliance Manager who will determine whether a transaction represents a related party contract which requires Board approval. If the Compliance Manager determines that the transaction is a related party transaction it must be put before the Board who will be required to confirm that the proposed terms applicable to the transaction are made on commercial arms length terms. The Compliance Manager will record any such transactions in a related party transaction register, which will be reviewed annually by the Compliance Manager as part of the Trust's compliance review.
- 7.3 Below is a summary of the material related party transactions which relate to the Trust:
- (a) The provision of property and/or asset management services – Clarence Property Works Pty Ltd (a wholly owned subsidiary of the Manager) is appointed to manage, or oversee the management of, the properties in the direct property portfolio.
  - (b) The provision of insurance brokerage services – Westlawn Insurance Brokers Pty Ltd is appointed to broker the majority of the Trust's insurance needs.
  - (c) The provision of accounting and taxation services and advice – Westlawn Business Services Pty Ltd provides both accounting and taxation services and advice to the Trust.
  - (d) The Manager, its directors, its shareholders, its employees and related parties hold interests in the Trust either directly or beneficially. This helps to ensure the interests of investors in the Trust are aligned to that of the Manager and related parties.

## **8 Distribution practices**

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- 8.1 To date, distributions have been paid monthly and at this point the Board has no intention of changing that practice.
- 8.2 Distributions for the 12 months ended 30 June 2010 totalled 8.0 cents per unit. This comprised earnings before unrealised gains/losses from ordinary activities as well as realised cash gain on the sale of the Ipswich City Plaza property in June 2009.
- 8.3 Distributions are generally sourced from realised income. Occasionally, a distribution may include a component sourced from capital (either from borrowings and/or equity), where the Manager considers this is appropriate and prudent. For example, a rent-free period may be offered to attract a new tenant and this may lead to a slight reduction in the realised income of the Trust for a particular period. In that situation, the Manager might decide to supplement a particular distribution with an amount sourced from borrowings and/or equity. However, the Manager will only do this where the Manager considers it will not have a materially adverse impact on the Trust.
- 8.4 The current annualised distribution rate is 4.0 cents per unit.



## **9 Withdrawal arrangements**

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- 9.1 The Trust is an illiquid investment and should be considered as a long term investment. The constitution of the Trust does allow the Manager to make limited withdrawal offers to investors from time to time as it sees fit. The last (and only) such offer was made in September 2008 and was fully subscribed. The Manager does not anticipate making another such offer in the immediate future. Although there is no formal secondary market for units, units are transferrable.