

## Commercial Leases Mandatory Code of Conduct

Since our update earlier this month the Federal Government, via the National Cabinet, has released its Mandatory Code of Conduct (Code), which is applicable to commercial tenants (including retail, office and industrial tenants) affected by the COVID-19 pandemic and who are eligible to receive the Federal Government's JobKeeper allowance.

The Code sets out a number of mandatory principles for landlords and tenants to follow in negotiating rent relief for COVID-19 impacted tenants. The key principles are:

1. During the pandemic period and a subsequent reasonable recovery period, landlords must offer tenants proportionate reductions in rent of up to 100% based on the reduction in the tenant's turnover;
2. At least 50% of the rent relief must be by way of rent waiver, and the balance by way of rent deferral; and
3. Landlords cannot terminate a tenant's lease due to non-payment of rent during the COVID-19 pandemic period and a subsequent reasonable recovery period.

The Code has allowed us to begin formalising rent relief agreements with impacted tenants, and to reasonably estimate the cash flow impact on the Trust. At this point we estimate the Trust may need to provide rent relief of \$3.7M over the next six months, to about 80 tenants. Of this, we estimate approx. \$2.1M will be waived rent (i.e. permanently lost income and cash flow) and approx. \$1.6M will be deferred rent (i.e. recoverable from tenants at some future point, although recovering all this rent will no doubt present its own challenges).

As mentioned in our March update, the Trust is in a strong financial position, with over \$40M in the bank, undrawn finance facilities, low gearing and unencumbered properties. It is imperative that, given the uncertainties everyone is facing, this strong balance sheet is maintained for the benefit of all unit holders. To this end, and following its decision at the end of March to suspend the capital raising, the Board has made two further decisions:

1. **Temporarily decrease the distribution rate** – from the current 6.5 cents per unit per annum, to 4.0 cents per unit p.a. This decrease will take effect from the April distribution, which will be paid on or before 12 May 2020, and may be required for six months. This will ensure distributions will continue to be fully funded from the Trust's operating cash flow, and not from cash reserves (i.e. equity); and
2. **Effective immediately, temporarily suspend the Distribution Reinvestment Plan (DRP)** – no action is required by investors. Investors currently participating in the DRP will automatically receive a cash distribution from the April distribution (to be paid on or before 12 May) onwards. When the DRP suspension is lifted, each investor's existing DRP status will be automatically reinstated. We will be in touch with you soon to confirm your bank account details.

## Property valuations and unit price

Unlike listed property funds, which provide transparent although often volatile pricing, assessing the value of properties (and therefore unit price) in an unlisted property fund such as Westlawn Property Trust is more difficult at present when there is little sales evidence to allow for benchmarking and comparison.

A fundamental component of the value attributed to a commercial property is its net rental cash flow. Will the rent relief the Trust is now providing to tenants adversely impact the value of its properties? In the short term, the answer is probably yes, but by how much and for how long we don't know. This will become clearer over the next few months as the health crisis is brought under control and the ongoing economic impact it has created is better able to be assessed. Importantly, some 53% of the Trust's rental income comes from government and "essential service" tenants (e.g. supermarkets), and is income unlikely to be affected by the Code.

Property values will be reviewed in detail for the June audit. Importantly, we have no intention, or need, to sell any property in the near future, and so any short-term valuation impact is of minimal consequence. Our Property Management and Property Acquisition teams remain very active and, although the market has slowed to some degree, opportunities still exist and are likely to increase over the next few months. The Trust remains positioned to take advantage of any opportunity which may present itself.

We'll provide a further update newsletter in the next couple of weeks.

**Investors & Readers:** This investor update is provided by Clarence Property Corporation Limited (CPC) as Manager of the Westlawn Property Trust (WPT) as an information service only and does not constitute financial product advice and should not be relied upon as a substitute for professional advice. Although we consider the sources of this information reliable and we have prepared the update with care and in good faith, CPC and WPT or any affiliated companies provide no warranty and no liability is accepted regarding the accuracy or completeness of the information. All information is current at the date of the update or as otherwise stated, but is subject to change without notice. CLARENCE PROPERTY CORPORATION LIMITED ACN 094 710 942 AFSL 230212 AS RESPONSIBLE ENTITY FOR WESTLAWN PROPERTY TRUST ARSN 095 611 804 AND EPIQ LENNOX PROPERTY TRUST ARSN 626 201 974

**02 6686 4122**

[enquiry@clarenceproperty.com.au](mailto:enquiry@clarenceproperty.com.au)