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# FSREC Property Fund: Portfolio and Capital Management update

25 June 2021

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# Introduction

## Strong performance and execution of strategic initiatives since merger

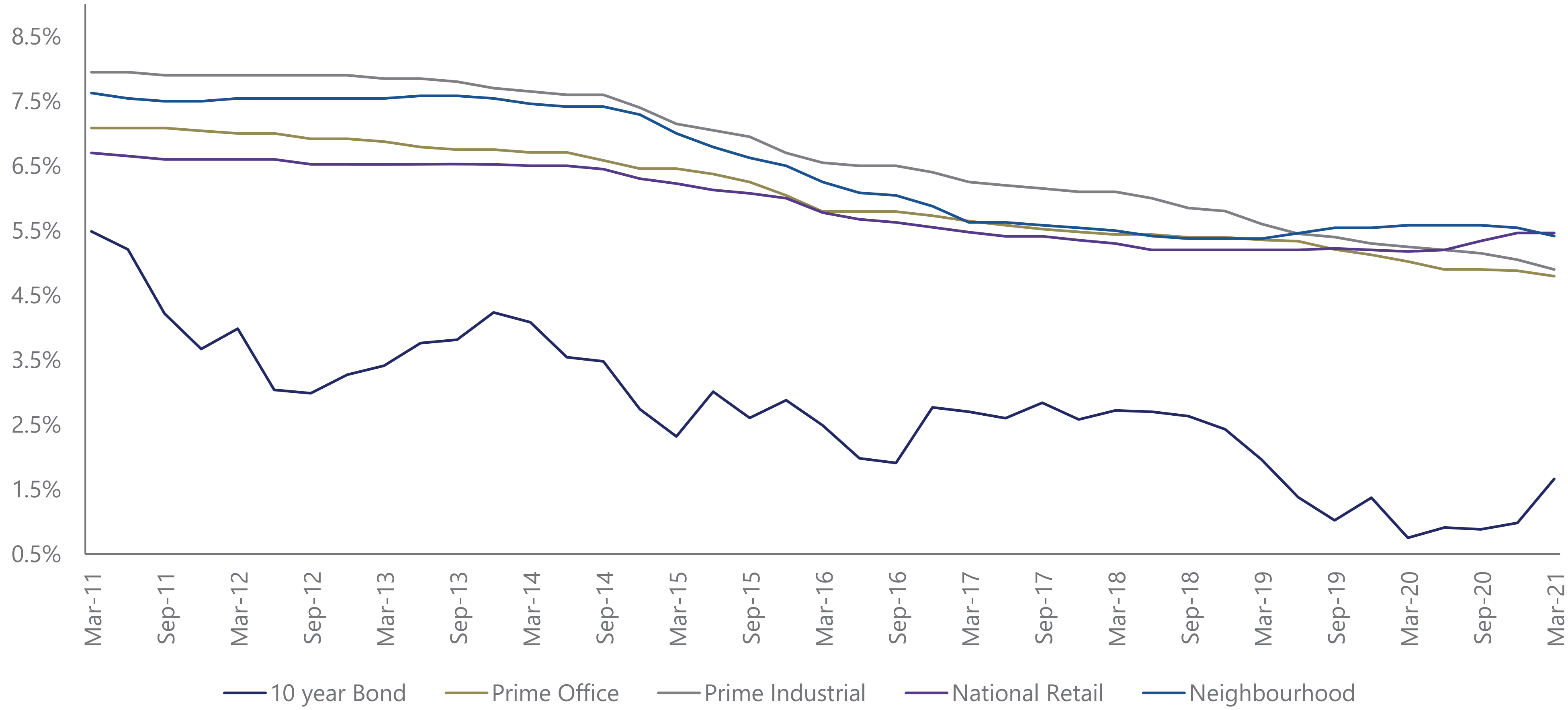
**1** Exchanged sale contracts for the disposal of 241 O'Riordan Street, Mascot, NSW for $151.5m
- Foreign Investment Review Board (FIRB) approval received
- sale contract unconditional
- settlement anticipated on 9 July 2021

**2** Sale of Mascot part of FSREC strategic initiatives aimed at:
- maximising returns to investors;
- focussing portfolio on convenience retail; and
- providing liquidity to investors

**3** Fund well positioned to provide attractive risk adjusted returns
- convenience retail assets continue to perform strongly in current environment
- fund continues to deliver growth in distributions and NTA

# 10-year bond vs commercial property yields

Yields for commercial property retail remain attractive relative to long term bonds




Source: JLL, Bloomberg as at 31 March 2021

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# Market update

## Australian retail sales remain strong with turnover in all states above pre-pandemic levels

**Retail sales**

- Strong trading conditions across retail sector with turnover in all states above pre-pandemic levels
- Within the retail sector, non-discretionary retail categories such as grocery, fresh food and retail services are performing particularly well

**Investor demand**

- Recognition of resilient performance of convenience-based retail throughout COVID-19 pandemic
- Attractive yields and defensive income profile driving strong demand from investors

**Outlook**

- Low interest rate environment continues to support the ongoing performance of the commercial property market
- Recent comments from Reserve Bank of Australia indicate maintaining of highly supportive monetary conditions until at least 2024
- Expectations that strong demand will continue over medium-term, providing attractive returns relative to other asset classes

### Annualised sales growth[1]

**FOOD**
**1 year growth:** 8.6%

**SERVICES/OTHER**
**1 year growth:** 11.2%

**ALL RETAIL**
**1 year growth:** 9.5%

Source: FSREC, JLL, RBA
1 ABS 30 April 2021
Disclaimer: Historical performance is not a reliable indicator of future performance

# Portfolio update

Leasing and supermarket performance contributing to growth in earnings and valuations

## Leasing performance[1]

**29**
Leasing deals completed across portfolio

**+1.2%**
Leasing spread for deals completed

## Supermarket performance[2]

**1.8%**
Annual supermarket sales growth across portfolio

**58%**
No. of supermarkets in portfolio paying turnover rent

## Revaluations[3]

**3.0%**
Growth in retail valuations

**2.5%**
Growth in Fund NTA

## Projects

### Birkdale McDonalds

- Approval obtained for a McDonalds padsite development
- Pre-lease agreed with McDonalds
- Construction due to commence shortly

### Keilor Central Solar

- 200kW rooftop solar system installed
- Will improve energy efficiency of asset and reduce operating expenses


### Oxford Village Signage

- Tenant signage upgraded to remove temporary A-frame signage
- Improved street level signage and overall presentation of the asset

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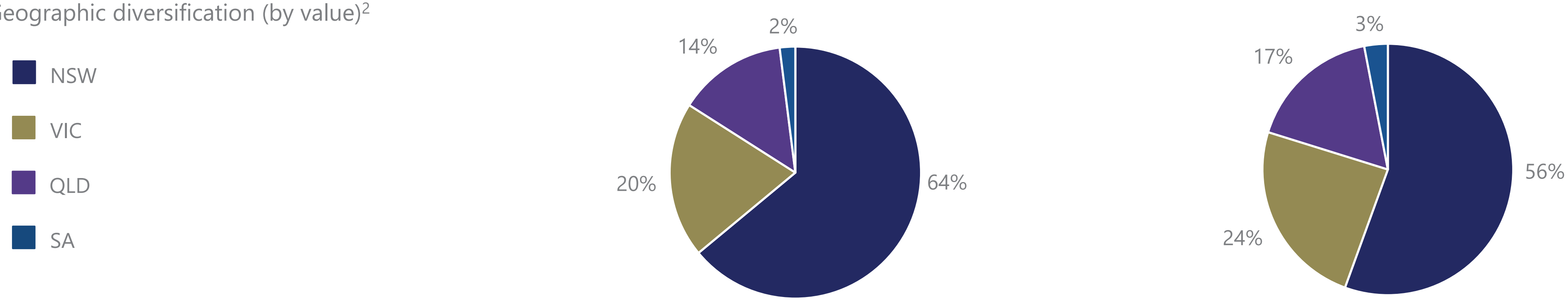
Source: FSREC. Disclaimer: Historical performance is not a reliable indicator of future performance

1. For leasing deals completed in five months to 31 May 2021
2. As at 31 May 2021
3. Growth is based on unaudited proforma 31 May 2021 NAV and valuation results announced on 18 June 2021, when compared to 31 December 2020

# Portfolio update *(continued)*

## Key portfolio metrics – before and after sale of 241 O'Riordan Street, Mascot, NSW

| | BEFORE MASCOT SALE | AFTER MASCOT SALE |
|---|---:|---:|
| Portfolio value[1] | $817.6m | $666.1m |
| Number of properties | 13 | 12 |
| Weighted average cap rate[1] | 5.96% | 6.01% |
| Occupancy (by area)[2] | 98.4% | 98.6% |
| Weighted average lease expiry (by income)[2] | 4.5 years | 4.9 years |
| Geographic diversification (by value)[2] | | |




Source: FSREC
Notes:
1. Preliminary unaudited revaluations announced on 18 June 2021
2. Figures as at 31 May 2021
Disclaimer: Historical performance is not a reliable indicator of future performance

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# Distribution, valuations and performance

## Strong portfolio performance providing ongoing distribution and valuation growth

**1** Funds from operations continue to grow as occupancy increases

- June quarter benefit of debt refinancing that closed on 23 April 2021, with ongoing savings from reduction in fixed rates
- distribution announced of 2.0 cents per security for quarter ending 30 June 2021, equivalent to 5% distribution yield[1]

**2** Retail portfolio revalued as at 30 June 2021 in line with Fund's valuation policy

- increase of $19.25 million to $666.1 million, a gain of 3.0% (excluding Mascot)
- FSREC believe that convenience retail in upward valuation cycle
- unaudited pro-forma 31 May 2021 NTA increased to $1.64 following portfolio revaluation and adjustments for 30 June 2021 distribution and Mascot sale costs

**3** Performance of assets continues to improve following easing of COVID restrictions

- convenience based assets have been resilient
- continued leasing activity and asset repositioning across the portfolio
- FSREC expects that investor demand for convenience-based retail will remain strong

Note:
1 Distribution yield calculated on NTA as at 31 December 2020

# Capital management

## Proceeds from sale of 241 O'Riordan Street, Mascot, NSW to be applied to capital management initiatives

- Sale of Mascot will provide the Fund with approximately $145.9m of net proceeds.
  - adjustments represent tenant incentives and sale costs
- Proceeds from sale will be used to reduce debt and provide investors an opportunity to redeem their investment in the Fund
- Capital management to be undertaken via a withdrawal offer of up to $95 million
- Proforma gearing following withdrawal offer in line with current gearing of 37%[1]

| SOURCES | $M | APPLICATION | $M |
|---|---|---|---|
| Sale proceeds | 151.5 | Debt reduction | 50.9 |
| Sale adjustments | (2.4) | | |
| Sale costs | (3.2) | Withdrawal Offer | 95.0 |
| **Total sources** | **145.9** | **Total application** | **145.9** |

Note:
1 Based on current gearing for the Fund as at 31 May 2021

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# Withdrawal offer

Withdrawal offer will be open to securityholders until 3pm AEST on 23 July 2021

1. Withdrawal offer of $95 million for FSREC securityholders
   – each stapled security will be redeemed for $1.59 (Redemption Price)

2. The Responsible Entity will send the withdrawal offer to security holders in accordance with Fund constitutions

3. Withdrawal offer will close at 3pm AEST on 23 July 2021

4. The Responsible Entity Board will consider appropriate capital management strategies if demand for the withdrawal offer is less than the offered amount. Options may vary depending on the size of the remaining funds, however it could include debt reduction or return of capital.

# Conclusion

Strong performance resulting from portfolio management and execution of strategic initiatives

**1** Successful execution of key strategic initiatives

- refinance of debt facilities providing ongoing savings to investors
- disposal of 241 O'Riordan Street, Mascot
- announcement of withdrawal offer

**2** Strong portfolio and financial performance

- growth in distributions and NTA in June quarter
- growth in turnover, leasing momentum and supermarket performance provide foundation for future income growth

**3** Optimistic outlook for the portfolio and the Fund

- convenience retail provides attractive risk adjusted returns for investors
- assets have been resilient but economic and COVID-19 related risks can impact future performance
- high quality assets with good prospects for growth