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360 Capital Industrial Fund

12 February 2013

360 Capital RE Limited as Responsible Entity for the 360 Capital Industrial Fund ("Fund" or ASX code "TIX") is pleased to announce the half yearly results for the Fund for the six months ended 31 December 2012.

The Fund also reaffirms its FY2013 distribution guidance of 4.50 cents per Unit (cpu) and provides FY2013 operating earnings guidance of 5.91[1]cpu, which reflects a forecast pay-out ratio of 76%.

The Fund listed on the ASX on 13 December 2012 following overwhelming approval by Unitholders on 8 November 2012.

Financial Highlights for the 6 months to 31 December 2012

- Statutory net profit was $7.7m was significantly above the statutory loss of $3.7m in the prior corresponding period (pcp) being the 6 months to 31 December 2011
- Statutory earnings per Unit (EPU) was 4.23cpu compared to a loss of (2.10)cpu in the pcp
- Operating profit[2] was $4.2m up 11.4% from $3.8m in the pcp
- Operating EPU was 2.31cpu, up 12.6% on 2.05cpu in the pcp
- Gross assets decreased to $302.4m from $355.5m in the pcp as a result of selective non-core asset sales as part of the Fund's portfolio repositioning and deleveraging strategy
- Net tangible assets (NTA) increased to $96.8m from $92.2m in the pcp mainly as a result of the write-off of accrued fees which more than compensated for costs incurred as a result of the Fund's listing, the Walker portfolio acquisition and defending Denison Funds Management's failed management challenge
- NTA per Unit increased 3.9% to $0.53 per Unit from $0.51 per Unit in the pcp
- The Fund's loan to value ratio (LVR)[3] decreased from 61.5% to 57.4% and remains well within covenants reflecting the Fund's deleveraging focus
- DPU of 2.25 cpu increased 12.5% on the 2.00 cpu distributed in the pcp
- The closing price as at 31 December 2012 of $0.41 per Unit reflected:
    - An annualised distribution yield of 11.0% based on an annualised distribution of 4.50cpu
    - A 22.6% discount to the Funds NTA per Unit of $0.53 per Unit

Operational Highlights over past 6 months

- Unitholders approved the listing of the Fund on 8 November 2012 which was then successfully listed on the ASX on 13 December 2012
- Significant leasing performance with 10,735 sqm (3.3% of portfolio) of space re-leased
    - Post December 2012, the Fund entered into heads of agreement over 38,229sqm (12.1% of portfolio), eliminating FY13 expiries and reducing FY15 expiries from 14% to 6% of net lettable area (NLA)
- Occupancy increased slightly from 97.5% to 97.7%
- Settled the acquisition of $80.4m portfolio from the Walker Corporation which, as part of the Fund's repositioning strategy, significantly improves overall portfolio quality
- Successfully negotiated a first right of refusal for five years with Walker Corporation over its current and future industrial development pipeline (currently in excess of 500ha of development land), thereby

1 Includes eight months borrowing costs at 5.0% swap (plus margin) and four months borrowing costs at 3.0% swap (plus margin) as a result of the post-December 2012 swap reset. Reduced swap rate equates to a saving of 0.5 cpu over the last four months of FY2013 in comparison to the previous higher rate. Assumes no further disposals, capital management, or other initiatives that the Fund may be considering

2 Operating profit (or earnings) is statutory net profit adjusted for amortisation of incentives and leasing fees, fair value losses on properties and derivatives, gains on the sale of properties, relinquishment of initial and deferred fees by the Responsible Entity and one-off costs associated with listing, 360 Notes and defence of the Denison management challenge.

3 LVR is calculated in accordance with debt facility documentation as borrowings (excluding 360 Notes) divided by property values as determined by last external valuations as adopted by the financier

providing the Fund with access, but not the obligation, to acquire new industrial assets as part of its repositioning strategy
- Weighted average lease expiry (WALE) was 4.9 years, up from 4.0 years in the pcp , and is expected to increase to 5.2 years including post December 2012 leasing activities
- Disposed of six non-core assets for a total of $46.0m with net proceeds used to reduce debt and reduce the Fund's LVR
- A recruitment process is underway to appoint a dedicated Fund Manager for the Fund (function currently undertaken by 360 Capital Property Group Managing Director and Head of Property)
- Existing tenant Grace Removals at the Hume property is expanding after exercising an option over expansion land. Walker Corporation will be responsible for development delivery.

Portfolio Update

Focus continues on reducing remaining near-term expiry profile of the Fund and extending the WALE to enhance cashflow. During the period 10,735sqm (or 3.3% of portfolio NLA) was re-leased which, together with the disposal of assets with vacancy, resulted in a slight increase in occupancy from 97.5% to 97.7%.

The major leasing transaction during the period was the renewal of Mainfreight Distribution at 500 Princes Highway, Noble Park, Vic. over 8,403sqm. The lease now expires in 2016 and extends the WALE of the asset to over 3 years from 2.3 years previously.

Wallara Industries also renewed its lease for 3 years over 1,867sqm at Bridge Road, Keysborough, Vic. This lease is in addition to its larger tenancy (3,188sqm) within the complex which is leased until 2019.

Post the HY2013 reporting period, heads of agreement have been entered into over two tenancies totalling 38,229sqm (or 12.1% of portfolio NLA). These transactions, once complete, will eliminate the remaining FY2013 expiries and reduce pending FY2015 expiries from 14% to 6% of portfolio NLA.

The Fund will maintain an on-going focus on extending the WALE of the Fund through early re-leasing in order to ensure consistency of cashflow and that future income risks are minimised.

The Fund's portfolio of 18 properties was last revalued as at 30 June 2012 and was not externally revalued during the half year to 31 December 2012.

Acquisition Update

During the six months to December 2012, the Fund acquired four new assets from Walker Corporation for $80.4 m (plus costs) with settlement in June and July 2012. The Walker portfolio acquisition was the first major step in repositioning the Fund by improving the quality of the portfolio, increasing portfolio WALE to 4.9 years from 4.0 years in the pcp, providing long term stability to the Funds cashflow, increasing diversification and reducing capex which has in turn allowed an increase in distributions. The four new assets acquired are:

- API, Citiwich Business Park, Brisbane, Qld - Leased for a further 13 years, this 18,956sqm warehouse is API's distribution facility servicing Queensland. The lease provides annual fixed rental increases of 4.0%
- The Reject Shop, Citiwich Business Park, Brisbane, Qld –Leased for a further eight years, Reject Shop have a right to request the landlord to expand the 26,628sqm premises by a further 6,200sqm in exchange for a new 10 year lease. A development agreement is in place with Walker Corporation to construct an expanded facility if required.
- Grace Group, Monaro Highway, ACT - The tenant's right to expand the 5,684sqm premises by 3,000 sqm has been exercised by Grace with the lease expiry to extend by four years to February 2022. A development agreement is in place with Walker Corporation to construct the expanded facility. The lease contains annual fixed rental increases of 4.0%
- Kimberley Clark, Vicinity Industrial Base, Adelaide, SA – Leased for a further seven years, this 7,023sqm facility was purpose built for Kimberley Clarke in 2009 as their state distribution centre and incorporates annual fixed rental increases of 3.5%.

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Disposal Update

During the 6 months December 2012, the Fund disposed of a total of six non-core, secondary assets for a total of $46.0m, with the net proceeds from these disposals used to reduce debt. These assets were considered non-core to the Fund and no longer met the Fund's investment strategy of owning well-leased and strategically located industrial properties within core Industrial markets within Australia.

Typically the disposed assets sold in line with valuations and were characterised by poor locations, long term vacancy, over-renting, or impending vacancy.

The Fund will continue to opportunistically dispose of non-core assets as an on-going part of its repositioning and capital management strategy.

Mr Ben James, Head of Property said "The investment management team has continued to focus on property fundamentals, in particular, maintaining a high occupancy over the portfolio by releasing 15.4% of the portfolio over the past seven months. This follows leasing of almost 100,000sqm (or 31% of the portfolio) in the last 12 months following a campaign of rebuilding tenant relationships. Coupled with the active management of the existing portfolio, the team continues to improve portfolio cashflow through the disposal program of higher risk, secondary, non-core assets and integrating higher quality assets from Walker Corporation."

Capital Management

The Fund has been through a significant capital stabilisation program over the past two years since 360 Capital assumed management of the Fund from Becton.

As part of the acquisition of the Walker Portfolio, the Fund issued 360 Notes to partly finance the acquisition. As at December 2012 the Fund had outstanding 360 Notes with a face value of $26.0m which are classified as unsecured subordinated debt.

At the time of the Fund's ASX listing, the Fund's senior debt facility with NAB was automatically extended to 3 years and now expires in December 2015. At 31 December 2012 the debt facility was drawn to $172.1m with a limit of $210.0m.

The Fund's LVR has reduced from 61.5% to 57.4% as at 31 December 2012 in comparison to the covenant of 60% at that time. The reduction of the LVR over the period was as a result of the disposal of non-core assets as part of the Fund's repositioning and deleveraging strategy with net proceeds being used to reduce senior debt.

As at 31 December 2012, the Fund had reduced its exposure to interest rate fluctuations by locking in $155m of its drawn debt with an interest rate swap at an average hedge rate of 5.0% plus margin until June 2014, resulting in the Fund being 90.1% hedged.

With the extension of the NAB Facility to December 2015, there was a requirement that the interest rate hedging strategy also be extended to be more in line with the debt facility. As a result, post 31 December 2012, debt of $155.0m was re-hedged until March 2016 at an average hedge rate of 3.0% p.a. (excluding margin).

The Fund has a strategy to continue to reduce the LVR to a medium term target of less than 50.0% in order to simplify its capital structure and be more in line with comparable A-REITS. Management has identified additional non-core assets that can be divested to further reduce borrowings and/or address repayment of the 360 Notes.

Summary and Outlook

The Fund will continue to implement its repositioning and investment strategy to purchase quality industrial investment assets located in core industrial areas and also to provide its Unitholders with regular income in the form of quarterly distributions and potential capital growth.

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360 Capital Property Group Managing Director Tony Pitt said "360 Capital Property Group's investment philosophy is to invest alongside our Unitholders and thereby support the Fund. Currently, 360 Capital, its Directors and the 360 Capital Diversified Property Fund own approximately 19.1% of Fund Units. 360 Capital and its associates supported the Walker Acquisition by purchasing $22.0m of the $26.0m of 360 Notes on issue. 360 Capital and its associates have a long term target of owning between 15% and 20% of the Fund."

Mr Pitt went on to say "Besides identifying further non-core asset disposals, the Fund is targeting the acquisition of well-located, quality industrial facilities with strong lease covenants in the $15.0m to $40.0m price range. The Fund believes this market segment is attractive given it is generally too large for privates and too small for the larger A-REITS, thus providing value to purchasers that also have the experience to manage the assets well."

The Fund is pleased to reaffirm its DPU guidance of 4.50cpu and provides earnings guidance of 5.91cpu for FY2013 (comprising December 2012 actuals of 2.31cpu and a further 3.60cpu for the six months to June 2013).

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About 360 Capital

360 Capital is a property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company was formed in 2006 and has been actively investing in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. The company's 15 full time staff located in Sydney have significant property, funds and investment management experience. As at 31 December 2012, 360 Capital managed 11 investment vehicles holding assets valued at more than $800m on behalf of over 9,000 investors