

# 360 Capital Industrial Fund

12 August 2013

## **Strong FY2013 Financial Results Reflect Successful Execution of Repositioning Strategy**

360 Capital Investment Management Limited as Responsible Entity for the 360 Capital Industrial Fund (Fund or ASX code: "TIX") is pleased to announce the Fund's results for the year ending 30 June 2013.

The listing of the Fund on the ASX in December 2012 was the third phase of 360 Capital's repositioning strategy for the Fund which had previously resulted in the reinstatement of distributions and financial stabilisation.

TIX is the only AREIT focused exclusively on Australian, passive, institutional quality, industrial property investment.

The Fund reported a statutory net profit of \$13.6m compared to a loss in the previous financial year of \$11.2m. After adjusting for non-cash and other non-operating items, the Fund's operating earnings were \$11.1m, up 14% on FY12 due to higher property income as a result of acquisitions at the end of FY12 and during the FY13 period, coupled with active asset management.

### **Financial highlights (presented on a 4:1 unit consolidation basis<sup>1</sup>)**

- Statutory net profit of \$13.6m significantly above the statutory loss of \$11.2m in FY12
- Operating earnings of \$11.1m up 14.4% from \$9.7m in FY12
- Operating EPU of 21.5<sup>2</sup>cpu was in line with FY12 and ahead of guidance of 19.6cpu
- DPU of 18.00<sup>3</sup>cpu was up 12.5% on FY12 DPU of 16.00<sup>2</sup>cpu (distributions 88% tax deferred)
- Net Assets increased 96.3% to \$181.2m from \$92.2m in June 2012 by virtue of equity raisings and the resultant reductions in debt and increases in property valuations
- NTA per Unit decreased by 4.9% to \$1.94<sup>4</sup> from \$2.04 in June 2012 reflecting the issue of 48.1m units during the period
- LVR decreased from 61.5% to 46.9% reflecting the reduction in debt from \$222.6m to \$160.4m post capital raising and non-core asset sales with the Fund remaining well within covenants
- Entered a new interest rate hedge over \$155.0m of debt at 3.0% plus margin
- The ASX closing price at 30 June 2013 of \$2.04<sup>5</sup> per Unit reflected a
  - 5.2% premium to NTA per Unit of \$1.94
  - An annualised DPU yield of 8.82% based on FY13 DPU of 18.00cpu
  - Unit price performance since listing of 15.7%, outperforming the S&P/ASX300 A-REIT Index which returned 5.9%

<sup>1</sup> Fund Units were consolidated on a 4 to 1 basis effective 9 July 2013

<sup>2</sup> 5.37cpu on a pre-consolidation basis.

<sup>3</sup> Pre-consolidation basis: 4.50cpu in FY13 compared to 4.00 in FY12

<sup>4</sup> Pre-consolidation basis: \$0.49 in FY13 compared to \$0.51 in FY12

<sup>5</sup> \$0.51 on a pre-consolidation basis

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## Operational highlights

- Acquired \$37.2m of assets as part of the Fund's repositioning strategy
  - significantly improved portfolio quality and strengthened underlying cashflow
- Disposed of \$46.0m of non-core assets
- Leased 51,864sqm or 15% of the portfolio reducing FY14 expiries to 10.0%
- 100% tenant retention rate
- Occupancy increased slightly to 98.4% from 97.7%
- Increased portfolio WALE from 4.9 years to 5.1 years
- De-risked leasing profile via removal of break clauses at Warwick Farm NSW and Bibra Lake WA resulting in material valuation uplifts
- Existing tenant Grace Records at Hume ACT has agreed to a building expansion and lease extension to be completed in November 2013
- Appointment of Ben Butler as dedicated Fund Manager

## Property Portfolio

The portfolio has maintained a high occupancy of 98.4% aided through a 100% tenant retention for the period. This result supports 360 Capital's strong tenant relationships since taking over the Fund in 2010.

Lease extensions to Visy Industries at Warwick Farm NSW and Dana Australia at Hallam Vic coupled with two acquisitions which had an average WALE of 10.0 years saw portfolio WALE increase to 5.1 years in FY13 from 4.9 years in FY12.

The WACR of the portfolio firmed 11bp to 8.93% and reflects a modest valuation uplift of \$3.0m or 0.9% on previous book values. Material upward movements were concentrated within the portfolio's prime assets and those assets which benefited from lease extensions and removal of break clauses. Partially offsetting this uplift in valuations was a reduction in values for those assets considered non-core and held for sale which reflects current market expectations for these assets.

Like-for-like NPI growth was strong, underpinned by an active period of leasing. Portfolio cashflows are supported by fixed reviews to 77% of the portfolio providing 3.5% rental growth per annum. The Fund has managed to achieve leasing results with minimal incentives averaging 3.9% and reduce portfolio over-renting to 2.0% based on the latest valuations.

The Fund's manageable lease expiry profile over the next 24 months provides strong earnings visibility. Of the 36,966sqm of major pending FY14 expiry (approximately 26,000sqm) is under advanced negotiations. Moreover, there are only two major FY15 expiries (10,238sqm in October 2014 and 10,631sqm in May 2015 and representing 4.7% of portfolio income) with early discussions having commenced with both these tenants. Current vacancy of 5,722 sqm is limited to three properties, the largest of which is non-core and slated for sale in FY14.

Grace Records Management Australia has exercised an option to expand its facility at Hume in the ACT by approximately 3,000sqm. Walker Corporation is undertaking the extension which involves approximately \$4.0m of capital investment (including land purchase) at a pre-agreed yield of 8.5% in return for a 4 year extension to the existing lease resulting in a new expiry in 2022. Settlement of the land purchase is due to occur in September 2013 upon development approval with completion of the works and commencement of the extended lease scheduled for the end of November 2013.

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### Acquisitions and Disposals

Acquisitions in the period comprised \$37.2m of quality industrial assets and disposed of \$46.0m of non-core assets. The Fund has a first right of refusal for 5 years with Walker Corporation over its current and future industrial development pipeline thereby providing the Fund with access to, but not the obligation to acquire, new high quality assets. There was \$80.4m across four assets acquired from Walker Corporation at the end of FY12

In June 2013 the Fund acquired two industrial properties at 69 Studley Court, Derrimut Vic and 457 Waterloo Road, Chullora NSW for a combined \$37.2m reflecting a combined yield of 8.6%. The acquisitions were consistent with the Fund's strategy of buying higher quality institutional grade assets providing stable long term cashflow.

Three assets being Villawood NSW, Cambellfield Vic and Edinburgh Parks SA valued at \$28.7m are held for sale having been identified as non-core due to their location, short WALE, capital expenditure requirements and as they do not fit the long term objectives of the Fund. Management has positioned these assets for sale and anticipates selling these assets during FY14. The Fund will continue to opportunistically dispose of non-core assets and integrate high quality institutional grade assets as an on-going part of its investment and capital management strategy.

Since listing on the ASX in December 2012 the Fund has assessed over of \$400.0m of industrial assets, made offers totalling \$259.0m and acquired \$37.2m. The majority of the assets which offers were made remain for sale, demonstrating a measured and disciplined approach to growing earnings and distributions.

### Capital Management

Over FY13 the Fund underwent a significant capital stabilisation and simplification program. During the period the Fund raised \$88.0m of new equity with the proceeds used to repay debt, simplify the capital structure and acquire two assets in NSW and Vic.

The Fund has significantly reduced the quantum of drawn debt from \$219.3m to \$160.4m thereby bringing LVR gearing down from 61.5% to 46.9% and in line with comparable listed vehicles. The Fund's long term gearing target is 40% to 50%. As a result of the lower gearing the Fund's financier agreed to remove the LVR covenant step downs and has fixed the LVR covenant at 55% for the remainder of the term of the facility. The Fund's all in debt cost for the period was also significantly reduced via a reset of a \$155.0m interest rate hedge in March 2013 at 3.0% plus margin resulting in the Fund being 97% hedged.

On 7 June 2013 Unitholder's overwhelmingly voted in favour of three resolutions including the appointment of another 360 Capital entity as the Fund's new Responsible Entity, the consolidation of units on a 4 to 1 basis and the ratification of the institutional placement conducted on 11 April 2013.

Other capital management initiatives included the introduction of a Distribution Reinvestment Plan (DRP) for the June quarter which was well supported.

Post 30 June the Fund successfully negotiated with its financier an overall decrease in its margin, expected to save \$1.1m (or 1.15cpu) p.a. of interest costs and reduced its facility limit to \$180.0m to further reduce line fees. A further saving to a total of \$1.3m (or 1.40cpu) p.a is expected to occur should the Fund reduce its LVR below 45%. Whilst the Fund maintains adequate undrawn debt for potential

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acquisitions and any unforeseen major capital requirements, the financier is supportive of the Fund's strategic growth strategy.

### Summary & Outlook

The Fund will continue to implement its strategy and provide Unitholders with regular and sustainable income in the form of quarterly distributions and potential capital growth.

Fund Manager Ben Butler said, "TIX remains the only AREIT focused exclusively on Australian, passive, institutional quality industrial property investment. The Fund has an achievable, clear and proven strategy which has delivered operating earnings ahead of guidance and sustainable distributions."

Mr Butler added "The outlook for industrial property remains solid with tenant demand stable across all major markets, supply remaining in check and capitalisation rates showing some compression particularly at the prime end. Opportunities for accretive acquisitions of quality industrial properties exist in the \$15m to \$40m range and we are seeing momentum in transaction activity beginning to increase. Notwithstanding, the Fund will maintain its disciplined acquisition strategy. The Fund will continue to focus on earnings and distribution growth by pursuing selective opportunities and driving operational performance of its existing portfolio."

### Earnings and Distribution Guidance

Management has provided FY14 operating earnings guidance of 20.0cpu. Full year distribution guidance of 18.60cpu is also provided representing a 3.3% increase on FY13 and reflecting a 93% payout ratio.

Based on the last closing price of \$2.06, FY14 the forecast EPU and DPU equate to an earnings yield of 9.7% and distribution yield of 9.0%, placing the Fund in an attractive position relative to its AREIT peers.

More information can be found on the ASX's website at [www.asx.com.au](http://www.asx.com.au) using the Fund's AXS code "TIX", on the Fund's website [www.360capital.com.au](http://www.360capital.com.au), by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing [investor.relations@360capital.com.au](mailto:investor.relations@360capital.com.au)

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### ***About 360 Capital Property Group***

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 30 June 2013, 360 Capital managed 10 investment vehicles holding assets valued at more than \$850 million on behalf of over 8,500 investors.