Core Property
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Unlisted Property Fund Report

HS Consortium Development Fund

382-386 Burwood Rd Hawthorn Development Trust

October 2018

Residential development in Hawthorn Vic, targeting 15% p.a. returns in 18 months

For wholesale investors only

HS Consortium Development Fund

382-386 Burwood Rd Hawthorn Development Trust

Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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HS Consortium Development Fund
382-386 Burwood Rd Hawthorn Development Trust

October 2018

HS Consortium has launched the 382-386 Burwood Rd Hawthorn Development Trust ("the Development Trust") to raise equity for the construction of a luxury residential apartment complex in Hawthorn, located 6km east of the Melbourne CBD. The project will be conducted through a wholly owned sub trust of the Development Trust.

HS Consortium (the Manager) was formed in 2017 as the funds management extension of the development business carried on by the directors of HS Consortium as Community Development Group Pty Ltd. Individually and collectively, the directors of HS Consortium have been involved in the acquisition, development and management of over $3 billion of real estate throughout Australia over a period of more than 25 years.

The Trustee is offering up to 9.8 million units for sale under the offer at A$1.00 per unit. Investors will initially subscribe for cash units in the HS Consortium Development Fund ("the Cash Trust") before redeeming to acquire units in the Development Trust which will undertake the development through the wholly owned sub trust. The investment opportunity is open to wholesale investors only. HS Consortium's major shareholders have committed to co-invest 20% in the Trust on the same terms as all investors.

The sole project of the Sub-Trust is a pre-approved residential apartment development with 21 luxury apartments, and 2 retail spaces. The expected Gross Realisation Value (GRV) of the project to be $32.5M (ex GST). Please refer to Section 3 of this report for more detail.
Core Property notes that, by their very nature, development projects are riskier compared to passive 'rent-collecting' commercial property syndicates. That said, the Manager has reduced many of the risks in the project:

- All development approvals are in place and demolition works began in August 2018;
- All 21 apartments in the complex have been pre-sold to owner occupiers (which reduces settlement risk);
- A fixed price construction contract has been agreed; and
- The Manager expects to sell the 2 retail spaces to complete the project, complete construction and settle the residential sales by March 2020 when it will distribute the final proceeds and close the Trust.

The construction and development costs will be funded through a mix of equity and bank debt. Indicative terms have been received from CBA with a covenant (loan to GRV) of 60%. Based on the forecasts analysed by Core Property, the Sub-Trust will have a peak loan to GRV of 58%. We provide more details in the Debt section of the report.

The Manager is targeting an Internal Rate of Return for investors of 15% p.a. over the 18-month period, equivalent to a final pay-out of $1.23 for each $1.00 invested. The final return is conditional on the sale of the final 2 retail spaces, and the 21 residential units being settled. Any change in the sale price of these retail units will impact the expected return for investors. Please see Investment Analytics section for more detail on the range of potential outcomes. Core Property has relied on information provided by the Manager and its consultants.

Investor Suitability

In Core Property's opinion, this product would be best suited to wholesale investors who understand the high risk/return relationship of residential development projects. The Trust is an illiquid investment and investors must be prepared to remain invested until the 2 retail spaces are sold and the project is completed, estimated to be March 2020.

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

Fund Details

Offer Open:	31 August 2018
Offer Close:	18 October 2018[1]
Min. Investment:	$100,000
Entry Price	$1.00 per unit
Liquidity:	Illiquid
Forecast Exit Price:	$1.23 per unit[2]
Final Payout:	March 2020 (est.)
Fund Investment Period:	18 months

1. The Manager may shorten or extend the Offer period at its discretion.
2. Based on a 15% IRR over 18 months.

Fund Contact Details

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Note: This report is based on the HS Consortium Memorandum: 382-386 Burwood Rd, Hawthorn Development Trust dated 31 August 2018, the HS Consortium Development Fund Information Memorandum dated 1 November 2017, together with other information provided by HS Consortium.

Key Considerations

Management: Newly established fund manager with three successful apartment developments in Victoria. Directors have a long track record of residential property development, delivering individually and collectively over $3B of real estate projects in Australia over more than 25 years. Strong level of corporate governance provided through independent Trustee, investment and compliance committee members. Directors will co-invest a minimum 20% in the Trust, providing alignment of interests.

Investment Structure: Investors must apply for units in the HS Consortium Development Fund ("the Cash Trust") before redeeming a sufficient number to acquire units in the Development Trust which will undertake the development through the wholly owned sub trust. Upon completion of the project the sub trust will be wound up with proceeds returned up to the Cash Trust for investors.

Single Asset Trust: Investors are exposed to a single asset project development that in Core Property's view has been substantially de-risked with 100% pre-sale of apartments, agreed fixed price on the construction, and bank debt on acceptable indicative terms.

Development Project: The Trust will undertake a residential apartment development at 382-386 Burwood Rd, Hawthorn Vic ("the development") to construct an eight-level luxury apartment complex with 21 over-sized apartments (7x 2br, 14x 3br) with 2 ground floor retails spaces and 41 basement car spaces. The equity raising will be used to acquire the development rights to the property, which has been approved for construction with demolition work commenced in August 2018. The 21 apartments have all been sold to domestic owner occupiers with deposits taken. The Trust will require the sale of the remaining 2 retail spaces to deliver the final returns for investors, which is forecast by March 2020.

Reputed Builder: The Manager has appointed Cobild as builder for the project. Cobild has been in business since 1995, successfully completing over 250 projects with a combined value in excess of $1 billion. All projects have been completed on time and within budget. Cobild's financial position has been reviewed by HS Consortium and the proposed bank lender.

Debt: The Trust intends to have a debt facility of $18.9M with CBA with leverage expected to peak at 58% of the Gross Realisable Value of the project.

Fees: All fees are paid for within the Trust structure prior to the payment of returns to unitholders. Core Property considers the fees to be appropriate for a trust of this nature. (See Fees and Costs section of the report).

Target Returns: The Manager is targeting an IRR of 15% p.a. over the forecast 18-month term of the Trust. Core Property estimates an IRR range of 11.4% - 18.0% based on the sensitivities of the retail sale price (+/- 20% of Manager's forecast price). The Trust will not pay any regular distributions, and investors will receive a total capital return when the Trust is wound up. Based on the Manager's forecasts, Core Property calculates that for every $1.00 invested, investors can expect to receive up to $1.23 at the end of the Trust term (estimated to be 18 months). Project contingency costs have been factored into the budget which, if not expensed, may provide up to $0.06 per unit in additional returns for investors.

Development Risk: Residential apartment projects, by their nature, provide a higher risk and return appetite. As no income is earned, IRRs are materially impacted by project times. As the Sub Trust only has development rights, this provides higher risk than owning the land.

Liquidity: Investors must accept that by their very nature, unlisted property funds are illiquid. Investors should expect to remain fully invested for the Initial 18-month term of the Trust, or until such a time as the property can be fully sold for all returns to be realised.

Investment Scorecard

Management Quality	★★★★☆
Governance	★★★★☆
Portfolio	★☆☆☆☆
Income Return	NA
Total Return	★★★★☆
Gearing	★★★☆☆
Liquidity	★☆☆☆☆
Fees	★★★☆☆

Fund Structure

An unlisted property development fund investing in a luxury apartment development (with small retail component) at 382-386 Burwood Road, Hawthorn, Vic.

Management

Residential property developer with management experience in over $3B of property developments. A strong representation of independent members of the Investment and Compliance Committees and an independent professional trustee and custodian. The directors of HS Consortium will co-invest a minimum 20% in the Trust, providing an alignment of interest.

Development Details

Projects in the Trust:	1
Project Address:	382-386 Burwood Road, Hawthorn VIC
Sector:	Development – Residential Apartments
Total Project Cost:	$28.7M
Equity Component:	$9.8M
Debt Component:	$18.9M

Return Profile

Forecast Distribution:	Capital returns at the end of the project period (18-months forecast)
Distribution Frequency:	At the end of 18-months (forecast)
Tax advantage:	N/A
Estimated Levered IRR (pre-tax, net of fees):	15.1%
Investment Period:	18 months

Risk Profile

Property/Market Risk:	Capital at risk will depend on a single development project located in Hawthorn, Vic. Investors will be exposed to a potential gain or loss, based on the success of the development project.
Interest Rate Movements:	Interest rates are not hedged and any change in the cost of borrowings or term of the debt may impact the final returns available to investors.
Property Specific Risks:	The development project is dependent on the successful sale of all lots in the development, including 21 residential lots which have been presold as well as 2 retail lots. In additional changes in development costs will impact on investors final returns.

For a more detailed list of the key risks, refer to the Risks section of the Project Memorandum.

Fees Paid

Core Property considers the fees to be appropriate to the nature of the development trust.

Entry Fees:	Nil
Exit Fees:	Nil
Establishment Fees:	$14,000 one off fees
Investment Management Fees:	1.5% of GAV
Development Management Fees:	3% of development costs or $440,000, whichever is the lesser.
Other Admin Fees & Expenses	Estimated at $160,500 p.a (see Figure 4)
Performance Fee:	20% of the outperformance of the Fund over an equity IRR of 15.0% (pre-tax, net of fees).

Debt Metrics

Facility Limit:	$18.9M
Loan Period:	18 months to March 2020
Peak Loan Amount /Gross Realisable Value of Project	58%

Legal

Offer Document:	Project Memorandum, dated 31 August 2018, together with the HS Consortium Development Fund Information Memorandum dated 1 November 2017.
Wrapper:	Unlisted Development Trust
Trustee:	MARQ Private Funds Pty Ltd (AFSL 473984)
Manager:	HS Consortium Pty Ltd (Authorised Representative (number 1256933) of the Trustee)

Overview

HS Consortium has established the 382-386 Burwood Rd, Hawthorn Development Trust ("the Trust") to provide an opportunity to invest in a residential apartment development being undertaken in Hawthorn, 6km east of the Melbourne CBD.

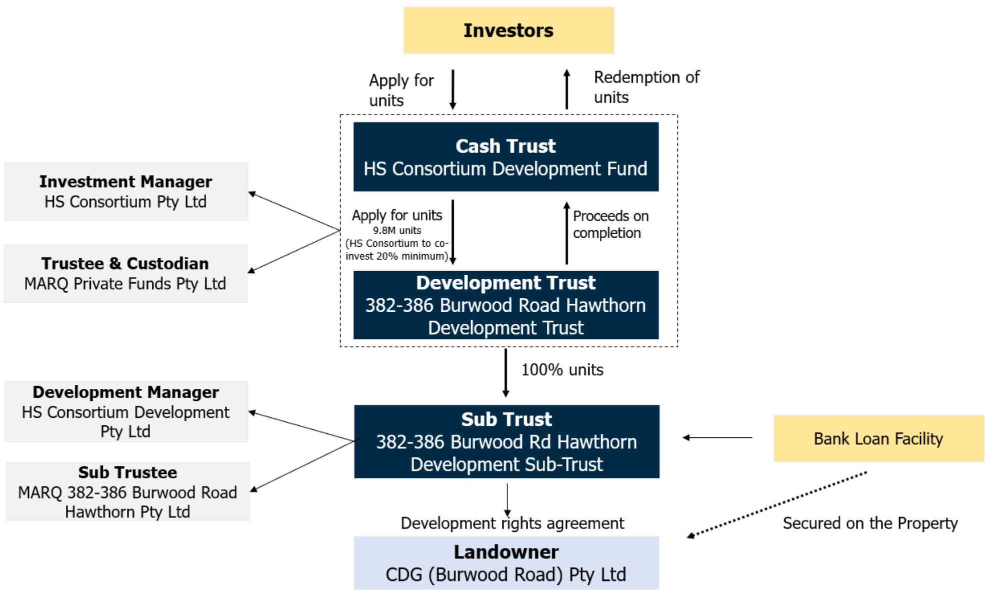
The Trust is looking to raise $9.8M through the issue of 9.8M units at $1.00 per unit. Investors will initially subscribe for cash units in the HS Consortium Development Fund ("the Cash Trust") before redeeming a sufficient number to acquire units in the Development Trust which will undertake the development through the wholly owned sub trust. The minimum investment is $100,000. The offer is open to wholesale investors only who meet the requirements of a Qualifying Investor of the Cash Trust (requiring an Accountant's Certificate stating the investor has net assets of at least $2.5M, or a gross income for each of the last two financial years of at least $250,000.). HS Consortium will co-invest a minimum 20% (or $2.0M) in the Trust, providing an alignment of interest.

The funds will be used, in conjunction with a bank debt facility, to complete the development at 382-386 Burwood Rd, Hawthorn Vic ("the development") over a forecast 18-month period to March 2020. The development consists of an 834sqm site located in the suburb of Hawthorn, Victoria. The project is well advanced, with the land already acquired, and the grant of all planning and development approvals for the construction of an 8-level apartment complex for 21 luxury over-sized apartments (7x2 bedrooms and 13x 3 bedrooms), with two ground floor retail spaces and parking for 41 vehicles in a 2-level basement. The sales risk has been substantially reduced on the project with all 21 of the apartments having already been sold to domestic owner occupiers. In addition, the Manager has a fixed price construction contract with the builder, Cobild, who have a solid track record since 1995 of completing construction projects on time and within budget.

The Trust is seeking to provide investors with a 15% p.a. internal rate of return (IRR). Core Property calculates this to represent a $1.23 repayment for every $1.00 of capital invested over the 18-month forecast period. As a development project the returns are conditional on the residential sales all settling at the contracted price on time, construction costs and interest expense remaining on budget and the sale of the two remaining retail spaces at forecast prices. The forecasts include a project contingency amount of $780,000, which could provide an upside of up to $0.06 per unit for investors (after performance fees).

Although an investment in the Development Trust should be considered illiquid, the short project life reduces the risk of having capital tied up for an extended period. Investors will need to stay invested for the term of the project, although units may be sold or transferred subject to the Trust's constitution. Prospective investors must note that this is a development project and as such, will be higher risk/potentially higher return than a traditional, income-producing commercial property investment.

Figure 1: Trust structure



Source: HS Consortium, Core Property

Sources & Application of funds

The Trust is seeking to raise $9.8M of equity which will provide $9.702M in funds after 1% ($98,000) of equity raising costs are deducted. The amount will be largely used to acquire development rights to the land for $9.62M, which takes into account the acquisition costs of the land as well as development costs incurred to bring the project to its current position.

Over the forecast 18-month term, the Trust is expected to progressively draw down up to $18.94M of debt to fund the construction of the project. Core Property has reviewed the forecasts and consider the numbers to be reasonable for the nature of the development. It should be noted the forecasts are based on the sales proceeds and costs being achieved, in order to deliver the projected 15% IRR for investors. The following table shows the forecast Sources and Application of Funds based on the Manager's assumptions.

Figure 2. Sources and Application of funds

	$M	% of funds	Comment
Sources of Funds			
Equity subscriptions	9.8	34.1%	
Bank Debt	18.9	65.9%	Facility limit of $18.9M will be progressively drawn to fund construction
Total source of funds	**28.7**	**100%**	
Application of Funds			
Equity Raising Costs	0.1	0.3%	
Development Rights to Land	9.6	33.5%	Paid to the landowner, CDG
Construction & Development Costs	17.3	60.1%	Includes $15.6M Construction Costs
Finance Costs	1.3	4.6%	
Fund Fees, Expenses & Working Capital	0.4	1.4%	
Total Application of Funds	**28.7**	**100%**	

Source: HS Consortium, Core Property

Liquidity / exit strategy

Investors should expect to remain invested in the Trust for the full 18 months to March 2020 in order to benefit from the expected returns being targeted by the Manager. As such, investors should view the Trust as illiquid. It should also be noted that any delays in completing the project may impact the exit date for investors and, ultimately, total returns.

Upon completion of the project the Trust will redeem investor's units for units in the Cash Trust based on the Trust's exit price per unit. Investors who wish to make a withdrawal of funds will be able to do so from the Cash Trust and/or allocate funds into other projects undertaken by HS Consortium.

Debt Metrics

The Trust intends to utilise a debt facility with CBA to complete the construction of the building. The indicative key terms of the facility include:

- The debt facility is held in the Sub Trust, with security over the physical asset which is not owned by the Trust or the Sub Trust, although the Trust has development rights to the asset. This is not uncommon for SPV developments of this nature and allows the project to proceed efficiently, however we note that it heightens the risk for investors as the asset is held in a separate entity to the liabilities.
- A Loan to Value Ratio (LVR) covenant of 60% of the Total Project Gross Realisation Value, or a Loan to Cost Ratio of around 70% of the total construction costs and development fees.
- The all-in cost of debt is estimated at 6.2% pa. The Trust does not fix the interest rate due to the short time-frame and investors should be aware that final returns may be negatively or positively impacted by movements in interest rates.
- A guarantee by one or more of the directors of HS Consortium.

Figure 3: Debt Metrics

Details	Metric
Borrower	The Sub Trust
Bank	CBA
Security	First registered mortgage over the Property held by the landowner
Debt Facility Limit	$18.9M
Forecast Maximum Draw Down / Period	$18.4M / March 2020
Initial Loan Period	18 months to March 2020
Average cost of Debt	Estimated at 6.2%, based on BBSY plus 1.55% p.a., 1.9% p.a. line fee
Peak Loan to Total Project GRV / Period	58% / March 2020
LVR Covenant	60%

Source: HS Consortium

Fees Charged by the Trust

Core Property considers the fees charged by the Manager to be appropriate, given the nature of the Trust. It should be noted:

- Investors will not pay any fees directly to the development manager for their investment in the Trust, however the Trust does incur a number of fees and expenses which are deducted before Investors receive their final return.
- A Performance Fee is payable of 20% of any outperformance by the Trust above an IRR of 15% p.a.

A summary of the fees is provided in the following table.

Figure 4: Summary of Fees charged by the Trust

Fee Type	Fee Charged	Core Property Comment
Establishment Fees		
Capital Raising Fee	1.0% of equity raised, equivalent to $98,000.	
Establishment Fees	Once-off establishment fees of $14,000 are payable to the Trustee for establishing the Trust, custody, and registry fees. Fee is paid by the Trust, and not by the investor.	Amount is used to cover costs. Core Property considers the Fee is in line with what is typically charged in the industry.
Ongoing Fees		
Investment Management Fee	1.5% of Gross Asset Value (GAV), paid monthly to the Investment Manager	The Manager forecasts this to be $405,937 over the estimated 18-month term of the Trust. Core Property considers the Fee is in line with what is typically charged in the industry.
Development Management Fee	The lesser of 3% of the Total Development Costs and $440,000, paid monthly to the Development Manager	The amount is payable to the Development Manager and is included in Construction Costs Professional Fees. Core Property considers the Fee is in line with what is typically charged in the industry.
Other Fees & Expenses	The Trust will also pay Other Fees & Expenses estimated at $107,000 p.a. to cover Trustee Services Fees, Ongoing Custody Fees, Ongoing Administration Fees and Ongoing Registry Fees.	Estimated to be $160,500 over the 18-month term of the Trust.
Performance Fee	20% of the Fund's performance above a per annum IRR of 15% after fees and costs.	Core Property considers the Fee and hurdle to be appropriate.

Source: HS Consortium, Core Property

The Development Project

The development project is located at 382-386 Burwood Road, Hawthorn, Victoria ("the Project") about 6km east of the Melbourne CBD. The project site has a land area of 834sqm, enjoying three street frontages – the main 20m frontage on Burwood Rd, 45m on Kent St and 20m on Kent Lane.

The site is centrally located on Burwood Rd and is within 100m of Glenferrie Rd, and 200m from Glenferrie Railway Station as well as a number of bus routes. Additionally, the site is within easy walking distance to Hawthorn's amenities, schools and expansive parklands and lies adjacent to a heritage building, Hawthorn Council House. Swinburne University of Technology is located ~100m away on Burwood Rd.

The site was acquired in 2015 by Community Development Group ("CDG" or "the Landowner") for the purpose of developing luxury residential apartments. Since then, CDG has undertaken extensive work in order obtain and receive development approvals to construct the Kent Residences, an 8-storey building with 21 luxury over-sized apartments, 2 retail spaces and a two-level basement car park for 41 vehicles.

The project is a luxury apartment development which has utilised award winning architectural firm Rothe Lowman, as well as leading interior designer David Hicks Studio. All the apartments face west with the higher-level apartments overlooking the Melbourne CBD skyline.

All 21 apartments (14 three bedrooms and 7 two bedrooms) have been sold with price ranging from $750,000 for a two-bedroom apartment to $3.75M for the three-bedroom penthouse), with buyers being domestic owner occupiers. The two retail spaces are currently on the market and targeted to be sold closer to completion date.

Construction of the project has commenced in August 2018 with the prior building having been demolished. Construction is expected to be completed over 18 months, with settlement expected to be at completion in February/March 2020.

Figure 5: 382-386 Burwood Rd, Hawthorn VIC – artists impression of completed project

Source: HS Consortium

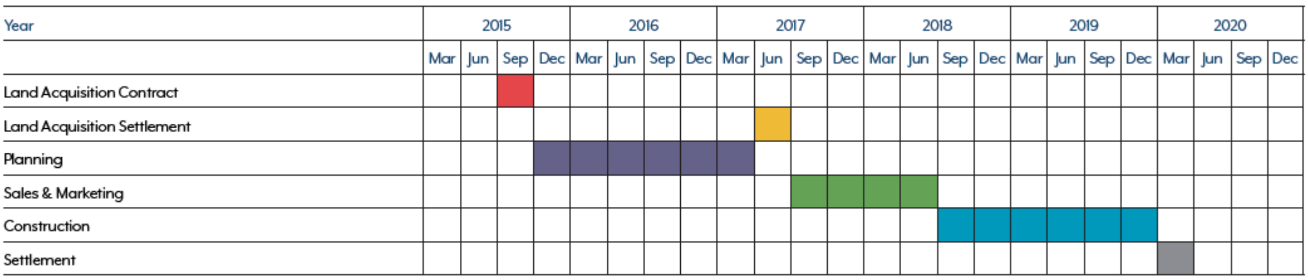
Project Status and Work Already Undertaken

The project enjoys a number of key benefits from work already undertaken to date.

- **The site has been acquired and is ready for construction:** The site was originally contracted for purchase by the landowner in 2015 with settlement occurring in 2017 following receipt of planning and development approvals for the project. The landowner has already undertaken all necessary planning work and received approvals for construction, with demolition work having commenced in August 2018.
- **All 21 residential apartments have been sold:** The landowner has also undertaken the marketing and has sold all the 21 residential apartments to domestic owner occupiers. This reduces the settlement risk as owner occupiers are more inclined to complete their purchase regardless of price movements in property market. A 10% deposit has been received to secure the apartments with purchasers expecting to settle in February 2020 upon completion.
- **Two retail shops will be offered to market for sale:** The remaining 2 retail spaces totalling 281 sqm are expected to be sold closer to completion. The Manager has assumed a sale price of $2.9M, representing a sale price of around $10,500 per sqm. Core Property considers the price to be reasonable on the basis of the retail space securing a tenant close to completion.
- **A fixed price construction contract:** The Manager has appointed Cobild to complete construction. Cobild has been in business since 1995 and has accumulated expertise across residential, commercial and other construction projects, having successfully completed over 250 projects with a combined value in excess of $1 billion. Cobild have advised that it has completed all projects in its history on time and within budget. The construction contract with Cobild is a fixed price contract and any variations from purchasers of the units are to be agreed directly between the purchaser and Cobild. The only potential for other price increases is should there be costs relating to latent conditions, ie soil contamination, rock, ground water issues. The Manager has advised that it has undertaken geotechnical and environmental testing and does not expect any such issues to occur. Nevertheless, the project has built in a 5% contingency cost, or $780,000, in its budget to use if required.

The following is a timeline of the project, provided by the Manager.

Figure 6: Project Timeline



Source: HS Consortium

Project Assumptions

Project Development Costs: The Manager has sought the services of external consultants specialising in engineering, surveying, valuation, and planning & urban design to prepare a preliminary development cost estimate for the project. The reports from these consultants, which the Manager has adopted, estimate that the average cost per apartment will be around $822,000 or $6,463/sqm. No cost escalation has been assumed in the financial model (over and above the contingencies already included in the estimates) as the construction contract will be on a fixed price basis.

Project Revenue Assumptions: The Manager has sold the 21 apartments at an average price per apartment at $1,518,300 or $11,937/sqm, which is reflection of the luxury features and large size of the apartments.

Investment Analysis

We summarise below the forecasts provided in the Project Memorandum. The key points to note are:

- The assumptions detailed previously in the report form the basis of the forecast profit. Core Property considers the assumptions appropriately represented and the forecast reasonable;
- Fees and costs adopted are as per the IM and independent consultant estimates;
- Forecast assumes the sale of all lots in the development by March 2020, including 21 residential units (which have been presold with 10% deposits taken) and 2 retail units (to be sold)
- Construction & Development Costs of $17.3M consists of Construction Costs ($15.6M) with a Project Contingency buffer of $780,000, or 5% of Constructions Costs. If this amount is not utilised it will be available to investors. If the $780,000 results in an IRR above 15%, the Manager will be entitled to 20% of the amount in excess of 15%.
- Fund Fees, Expenses & Working Capital of $0.6M includes $440,000 for Development Fees, or ~2.8% of the Construction Costs, which Core Property considers appropriate for the project.
- The forecasts by the Manager is for the project to deliver a 15.1% IRR to investors. The forecasts are for unitholders to receive around $1.23 for every $1.00 of equity invested, assuming the returns are delivered within the 18-month time period. If the Project Contingency amount is not required for the project and is released as profits, then investors can expect to receive a ~$1.29 return after Performance Fees are paid.
- The Manager expects the Trust will have less than 50 investors and not be required to pay company tax on the returns. If, however, the Trust is required to pay company tax on the development profit, then the returns will be by way of a fully franked dividend to investors and the dividend will be reduced to the extent of the franking credit.

Core Property has reviewed the Profit & Loss assumptions for the project, which are summarised in the table below.

Figure 7: Project Profit & Loss forecast

Forecast Income	Project Forecast ($M)
Sales (excl GST)	32.5
Total income	**32.5**
Project Costs	
Equity Raising Costs	0.1
Land Development Rights	9.6
Construction and Development Costs	17.2
Sales and Marketing	0.6
Finance Costs	1.3
Project Contingency	0.8
Fund Fees, Expenses & Working Capital	0.6
Total Costs	**30.2**
Assuming Project Contingency is used	
Forecast Pre-Tax Profit Available to Investors	2.3
Forecast Return to Investors – per $1.00 unit invested	$1.23
Forecast Internal Rate of Return (IRR) – Pre-Tax, Post Fees	15.1%
Assuming Project Contingency is not used and returned to investors	
Forecast Pre-Tax Profit Available to Investors	3.0
Forecast Return to Investors – per $1.00 unit invested	$1.29
Forecast Internal Rate of Return (IRR) – Pre-Tax, Post Fees	19.8%

Source: HS Consortium, Core Property

IRR Sensitivities

Based on the forecast return of capital, the project is estimated to deliver an Internal Rate of Return (IRR) of 15.1% for investors over the 18-month term. As the majority of the lots are currently presold, the IRR is more sensitive to changes in costs, including the time taken to complete construction as well as interest rate costs. It is important to note that the forecast return is dependent on certain forward estimates and any variance in these assumptions could alter the forecast return achieved over the project term.

HS Consortium has provided the following sensitivity charts, which illustrate the impact of delays in construction and higher interest rates having a negative impact on returns, whilst a quicker construction period and lower interest rates increase the returns available to investors.

Figure 8. Equity IRR sensitivity to base case changes on construction period and end sale value

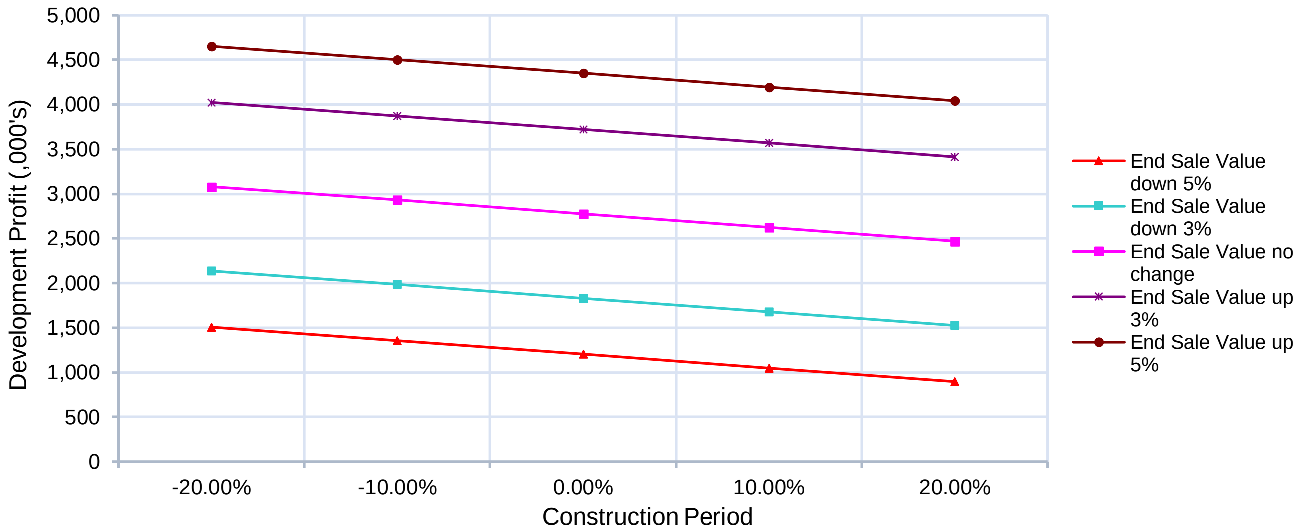
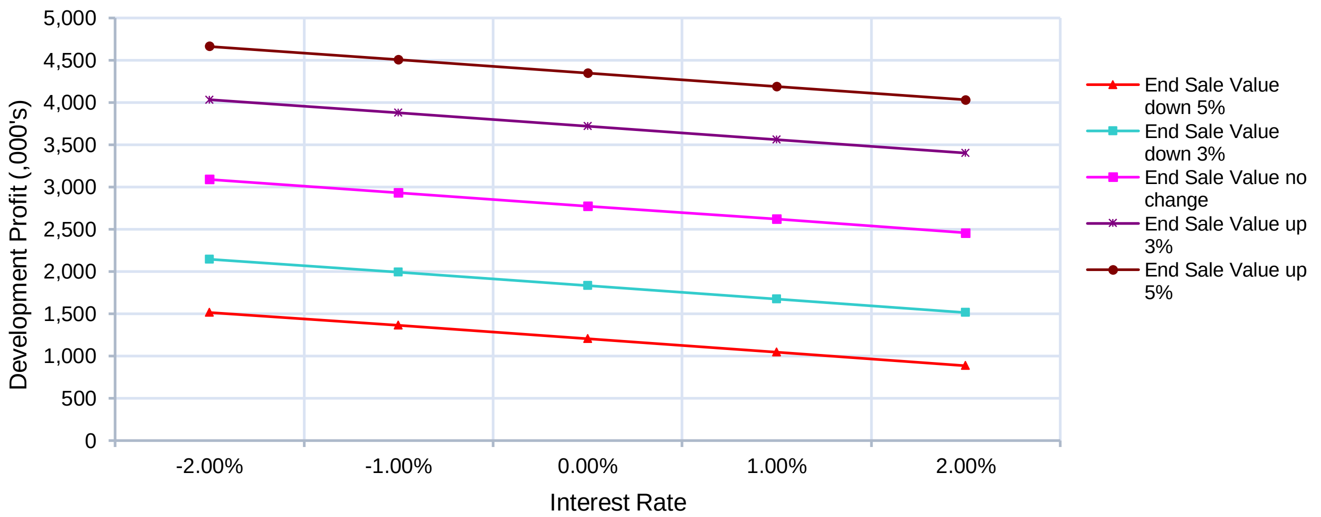


Figure 9: Equity IRR sensitivity to base case changes in interest rates and end sale value



Source: HS Consortium

IRR Scenarios

Core Property has undertaken a select number of scenarios for the project at the end of 18 months, at March 2020. The scenarios should be considered indicative only and not exhaustive. The Trust may encounter any number of different scenarios which may have a material impact on investors final returns (for example, delays in construction, movements in interest rates).

- Scenario 1 assumes only the residential lots are settled at the contracted price and all the project costs are incurred, including the contingency buffer of $780,000. Under this scenario the Trust is estimated to have $0.938 in cash per unit, whilst it awaits the sale of the 2 retail spaces.
- Scenario 2 assumes only the residential lots are settled at the contracted price and the project costs are incurred on budget, however the contingency buffer of $780,000 is not spent. Under this scenario the Trust is estimated to have $1.018 in cash per unit, whilst it awaits the sale of the 2 retail spaces.
- Scenarios 3-7 assumes the residential lots are settled at the contracted price, however the retail space is sold at various prices between -20% to +20% of the estimated $2.9M selling price in the Manager's budget. All contingency costs are spent under the scenarios, and the Trust is estimated to have an exit price of between $1.175 and $1.281 per unit, with an IRR of 11.4%- 18.0%.
- Scenario 8 assumes the residential and retail components are sold as per the Manager's forecasts, however the contingency buffer is not spent. Under this scenario the Trust is estimated to have an exit price of $1.297 with an IRR of 19.0%.

Figure 10: Selected Scenarios at 18 months

Scenario	Assumed Exit Price at 18 months	Expected IRR (18 months)
1.Residential Component sold, contingency costs spent	$0.938	-4.2%
2.Residential Component sold, contingency costs not spent	$1.018	1.2%
3.Residential Component sold, Retail sold at -20% of budget, contingency costs spent	$1.175	11.4%
4.Residential Component sold, Retail sold at -10% of budget, contingency costs spent	$1.204	13.2%
5.Base Case: Residential Component sold, Retail sold at budget, contingency costs spent	**$1.234**	**15.1%**
6.Residential Component sold, Retail sold at +10% of budget, contingency costs spent	$1.257	16.5%
7.Residential Component sold, Retail sold at +20% of budget, contingency costs spent	$1.281	18.0%
8.Residential Component sold, Retail sold at budget, contingency costs not spent	$1.297	19.0%

Source: Core Property

Management & Corporate Governance

Background of the Manager and Trustee

HS Consortium (the Manager) was formed in 2017 as the funds management extension of the development business carried on by its directors, trading as Community Development Group Pty Ltd. Individually and collectively, the directors of HS Consortium have been involved in the acquisition, development and management of over $3 billion of real estate throughout Australia over a period of more than 25 years.

The Trustee of the Development Trust is MARQ Private Funds Pty Ltd ("Trustee", or "MARQ"), an independent outsourced professional trustee established to provide trustee, fund administration and registry services to fund and investment managers. MARQ was established in 2015 and holds Australian financial services license number 473984.

Core Property notes the Investment and Compliance Committees of the Trust comprise a majority of independent members, which provides a greater level of accountability for investors. Details of the committee members are provided in the table below.

Figure 11: Investment and Compliance Committees

Name & Role	Experience
Investment Committee	
Scott Keck **Chairman** **Charter Keck Cramer Pty Ltd** FAPI, AREI, CPP (Fin), CDP, CFM, CPV (Bus)	Scott is chairman of Charter Keck Cramer, a leading Australian independent strategic property consulting firm. Scott has experience as a senior negotiator in complex commercial and statutory issues related to the property market and for advice in relation to large portfolio valuations for major statutory and private corporations. He has also consulted many corporate clients on asset acquisition and disposal and accommodation solutions. Additionally, he has served on several professional committees, and on several trust, corporate and superannuation advisory boards and has appeared regularly as an expert witness in litigation proceedings. Scott is a highly regarded and regular contributor to the national media and business magazines with over 500 articles on topics related to the property market published by him in the last eight years.
Bing Xia **Managing Director** **HS Consortium Pty Ltd** BPC, BCom (University of Melbourne), Certified QS (AIQS), Member of RICS	Bing holds over 11 years of experience within project development across multiple property sectors such as residential, commercial, education and healthcare. He co-founded Community Development Group Pty Ltd and has successfully led a property development team that has both individually and collectively initiated and brought to fruition over $3 billion of property projects in Australia.
Adrian Blake **CEO – Property & Mezzanine Finance** **Pacific Group of Companies** Bachelor of Commerce, Graduate Certificate in Applied Finance	Adrian is the CEO of Property and Mezzanine Finance at the Pacific Group of Companies, an organization that specializes in the provision and advisory of capital for property related transactions in Australia and North America. Adrian has previously held executive roles at ANZ Institutional Bank and NIBC Bank (Europe) where he led teams in capital markets and property, corporate and structured finance, and complex debt/equity work out situations. With over 20 years of experience in commercial real estate across Australia, Asia, Europe and North America his expertise in property risk is underpinned by a broad knowledge and experience in debt and equity. Additionally, Adrian holds other roles in several property related advisory boards and investment committees as a non-executive member.

Source: HS Consortium

We table below the members of the compliance committee that provide management, oversight and governance of the Fund.

Figure 12: Compliance Committee

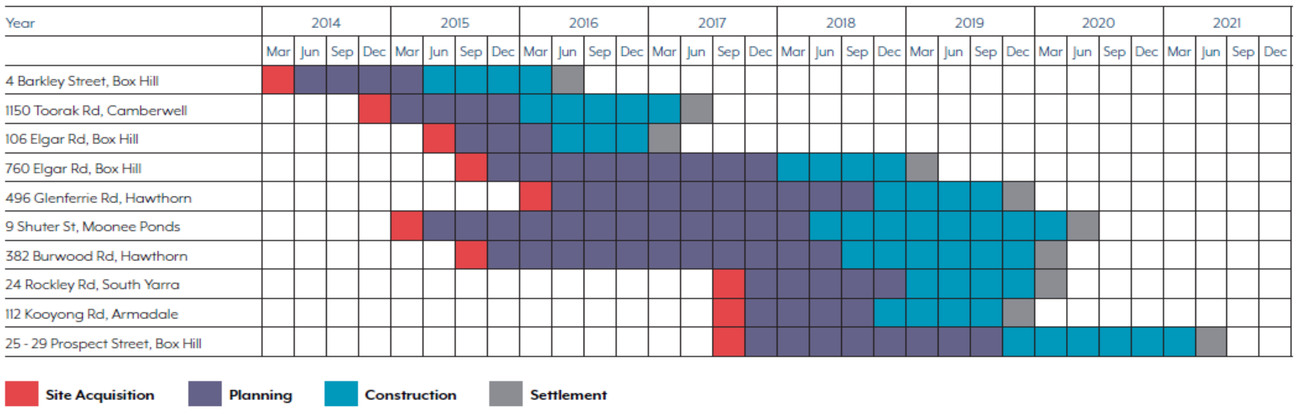
Name & Role	Experience
Murray Jones **Managing Director** **Compliance & Risk Services Pty Ltd** Diploma of Financial Planning Deakin University (DFP1-4) Graduate Diploma in Applied Finance & Investments, Bachelor of Science (Hon), ANU	Murray is the Managing Director of Compliance & Risk Services Pty Ltd and has over 25 years of experience within the financial services industry where he has provided advice on corporate governance and strategic planning issues to institutions. He has acted as an independent expert under ASIC enforceable undertakings, chaired audit risk and compliance committees, and has been appointed as a responsible manager for several AFS License holders spanning listed and unlisted fund managers and financial advisory businesses. Additionally, he has played a role in establishing and supporting financial services businesses for over 150 financial institutions. Murray has worked for AXA Asia Pacific Holdings Ltd as group Business Risk & Compliance Manager and for the Australian Securities Commission where he developed and was responsible for a number of national regulatory programs.
Bing Xia **Managing Director** **HS Consortium Pty Ltd** BPC, BCom (University of Melbourne), Certified QS (AIQS), Member of RICS	Bing holds over 11 years of experience within project development across multiple property sectors such as residential, commercial, education and healthcare. He co-founded Community Development Group Pty Ltd and has successfully led a property development team that has both individually and collectively initiated and brought to fruition over $3 billion of property projects in Australia.
Andrew Patrick **Managing Director** **MARQ Private Funds Pty Ltd** Member of the Institute of Chartered Accountants, Bachelor of Business (RMIT), Post Graduate Certificate in Property (RMIT), Certificate IV Finance & Mortgage Broking	Andrew is the Managing Director of MARQ Private Funds Pty Ltd, which is the Trustee for the Fund. Andrew has been successful as a management and finance executive and is considered one of Australia's experts on the statutory regulations that apply to property investment and managed investment schemes. He has held a partner role at Deloitte for tax consulting and positions of Chairman for both the firm's national tax group and the Asia-Pacific tax group. Additionally, he served as Managing Director of fund managers where he concluded private capital raisings for investment into property funds. Furthermore, he has served as consultant Responsible Manager and Key Person for a number of AFS Licensees with managed investment schemes that hold significant property, equities and loan investment portfolios.

Source: HS Consortium

Past Performance

HS Consortium was formed from the management capabilities of Community Development Group Pty Ltd (CDG). Since 2014, CDG has successfully completed a number of residential development projects in Victoria which have delivered equity IRR's of 20 - 24% p.a. A summary of CDG/HS Consortium's completed projects and its pipeline of current and future projects is as follows:

Figure 13: Completed and Current Projects – CDG / HS Consortium



Source: HS Consortium

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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