Core Property
Fund Research & Ratings
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Unlisted Property Fund Report

Elanor Burke Street Fund

November 2020

Well located office property in established medical precinct targeting 6.5%+ distributions

For wholesale and sophisticated investors only

Elanor Burke Street Fund

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.

Elanor Burke Street Fund

November 2020

The Elanor Burke Street Fund ("The Fund") is an unlisted property fund, with an initial term of five years, that invests in an office/medical property located at 2 Burke Street and 163 Ipswich Road, Woolloongabba QLD ("the Property"). The Investment Manager, Elanor Funds Management Limited ("the Manager") is a subsidiary of Elanor Investors Group (ASX: ENN), an established Australian real estate fund manager with $1.8B of funds under management.

The Fund is purchasing the Property for $80.2M plus costs and the Manager is seeking to raise $44.0M through the issue of 44.0M units at $1.00 per unit ("the Offer"), which will be used, in conjunction with debt, to acquire the Property. The Offer is available to Wholesale and Sophisticated Investors only, under the terms of the Information Memorandum.

The Property consists of two A-grade office buildings located on a single site directly opposite the Princess Alexandra Hospital in Woolloongabba QLD and within walking distance to the Park Road Railway Station and the new Boggo Road Metro and Cross River Rail stations due for completion in 2023/2024. With 100% occupancy and a WALE of 7.2 years. Building One is leased to the Catholic Education division of the Archdiocese of Brisbane on a new 10-year lease which commenced in December 2019 and Building Two is leased to QLD Metro South Health on a 7-year lease expiring in June 2025. QLD Health is the original tenant of Building Two since 2007, operating as the Burke Street Centre, providing a range of medical consulting services at the Property. Both leases to QLD Health and Catholic Education are subject to a minimum 3% p.a. annual rent increase.

While the Fund should be viewed as a passive income yielding fund during the initial term, the Manager is seeking to enhance the value of the asset by: (1) exploring opportunities to accommodate an expansion for QLD Health on the site; and (2) extending an existing development approval for the sub-division of the title to facilitate a sale of individual building lots.

The balance of the purchase price and costs is being funded by $44.1M debt - a 5-year facility from a major bank with the interest rate fully hedged for the five years at a forecast all-in-cost of approximately 2.30% p.a. The fully drawn debt implies an initial LVR of 55% which is close to the LVR covenant of 60%. Core Property would normally consider this level of leverage to be high but acknowledges the strong credit quality of the tenants and ascribes a low risk to tenant default.

The Fund will have an initial NTA of $0.83 per unit with most of the dilution coming from stamp duty and upfront costs to establish the Fund. Core Property also considers the fees charged by the Fund to be at the low end of the range, compared to what is seen in the industry.

The Manager is forecasting distributions of 6.5 cpu during the first year, increasing steadily to 7.6 cpu by year five, supported by leases with a minimum rental increase of 3.0% p.a. As such, Core Property views the Fund to provide predictable and sustainable distributions.

Core Property estimates the Fund to deliver a pre-tax IRR of 7.0% - 11.7% p.a. (base case 8.6%), with the Manager targeting 10% p.a.. (for more details, see the Financial Analysis section detailing *Expected Returns)*. In a value-add scenario, where the Property is sold with an approval and lease commitment from QLD Health to expand its net lettable area (NLA) by 8,500 sqm, the Manager is targeting an IRR of 13.5% p.a.. Investors should note the value-add scenario is based on a number of assumptions which may or may not eventuate and assumes the additional NLA is fully leased to QLD Health. Our IRR calculations include the potential that investors may receive a capital gain or loss, based on market conditions.

Investor suitability

Core Property considers the Fund will appeal to investors who seek a relatively stable income distribution profile underpinned by a well-located office/medical asset and fully leased to tenants that have a low risk of default. The Fund is expected to deliver steady income growth with capital gains dependent on market conditions and the demand for healthcare related assets. The potential for further capital gains is possible, subject to the successful execution of a Value-Add strategy by the Manager.

The Fund would best be suited as part of a diversified Core investment strategy. Investors should expect to be invested for a minimum five-year period.

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:	28 October 2020
Offer Close:	9 December 2020
Min. Investment:	Open
Issue Price:	$1.00
NTA:	$0.83 per unit
Liquidity:	Illiquid
Forecast Distributions:	Year 1: 6.5% Year 2: 6.6%
Distribution Frequency:	Quarterly, within eight weeks of each quarter
Investment Period:	5 years or longer

Note 1: estimated NTA upon acquisition December 2020

Fund Contact Details

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Note: This report is based on the Elanor Burke Street Fund Information Memorandum dated 28 October 2020, together with other information provided by Elanor Investors Group.

Key Considerations

Management: The Trustee and Manager, Elanor Funds Management Limited, is a wholly owned subsidiary of Elanor Investors Group (ASX: ENN), an ASX-listed fund manager established in 2014 with $1.8 billion of assets under management. Elanor Investors intends to invest up to 5% of the units in the Fund, which provides an alignment of interests with investors.

The Property: The Property consists of two A-grade office assets on a single title, located at 2 Burke Street and 163 Ipswich Road, Woolloongabba QLD. Situated on a 1.5 ha site, the Property provides 8,637 sqm of NLA with 185 car spaces and is 100% occupied with a WALE of 7.2 years. The Property is being acquired for $80.2M on a 5.50% capitalisation rate, which is reflective of the demand for well-located office/medical assets with a strong tenant covenant. The Property is located directly opposite the Princess Alexandria Hospital in a well-established medical precinct, 2km south of the Brisbane CBD.

- Building 1 (54% of NLA) was constructed c.1990 and is fully leased to the Archdiocese of Brisbane (Catholic Education) on a new 10-year lease from December 2019 – December 2029, with a 5-year option to extend. Catholic Education also have a first right of refusal to acquire the Building on equal terms, if the Building has an offer to be purchased.
- Building 2 (46% of NLA) is fully leased to QLD Metro South Health on a 7-year lease (June 2018 – June 2025), with 2x2 year options. The building was purpose built for QLD Health, who have been occupants post completion of construction in 2006.

Each lease is subject to annual rental reviews, with both leases increasing by a minimum of 3% p.a.

Fund Strategy: The Manager will look to undertake a two-prong strategy to maximise the value of the Property. The core strategy centers around maintaining the strong tenancy at the Property, ahead of the expiry of the QLD Health lease in June 2025. The value-add strategy will explore options to accommodate an expansion for QLD Health, if required, by either building up on the existing building or constructing an additional building on excess land. The Property also has a current development approval (expiring on 31 January 2021) to subdivide the site into two parcels, which, if renewed, provides the option to sell the buildings separately.

Debt Profile: The Fund has received preliminary credit approval to establish a five-year debt facility of $44.1M from a major Australian bank, with a forecast interest rate of approximately 2.30% p.a. fully hedged for five years. Core Property notes the proposed facility provides funding certainty for investors over the initial five-year term of the Fund. The initial LVR of 55% is below the LVR covenant of 60%. Core Property calculates that the asset value must decrease by 8.3% in order for the LVR covenant to be breached.

Distributions: The Manager is forecasting distributions of 6.5 cpu in Year 1, increasing to 7.6 cpu in Year 5, with average distributions of 7.0% p.a. over the initial five-year term. Distributions are paid quarterly, within 8-weeks.

Fee Structure: Core Property considers the Fund's fees to be low when compared to what has been seen in the market. (see Figure 5: Fees in Perspective).

COVID-19 Impact: Investors should be aware that property valuations may be impacted by short term volatility as a result of the impact of COVID-19 on investment markets.

Total return profile: Core Property estimates the Fund to deliver a pre-tax equity IRR of between 7.0% - 11.7% (midpoint 8.6%), see the *Financial Analysis section* for more details. On this basis, the Manager is targeting an IRR of 10.0% assuming an exit capitalisation rate of 5.25%. Alternatively the Manager may implement a Value-Add strategy with the potential to increase the IRR to 13.5% p.a., which is dependent on additional demand for space by the tenant and market conditions. The IRR calculations take into account the potential for a capital loss or gain.

Illiquid investment: Investors should be advised, that by their nature, unlisted property funds are illiquid and should expect to remain invested for an initial five-year term of the Fund.

Investment Scorecard

Management Quality	★★★★☆
Governance	★★★★☆
Asset Quality[1]	★★★★☆
Income Return	★★★☆☆
Total Return	★★★☆☆
Gearing	★☆☆☆☆
Liquidity	Illiquid[2]
Fees	★★★☆☆

Note 1: Core Property has introduced this category for single asset property funds. The rating takes into account variables such as location, age of building, WALE, tenancy profile, etc.

Note 2: The Fund requires a sale of the asset to provide liquidity. The Manager may however assist in the transfer of units in the Fund on a best endeavours basis.

Key Metrics

Fund Structure

A close-ended single asset unlisted property fund investing in an office building in Woolloongabba, QLD.

Management

Elanor Investors Group (ASX: ENN) is an investment and funds management business with a strong focus on acquiring and unlocking value in assets that provide strong income and capital growth.

Property Portfolio

No of Properties:	1
Acquisition Price:	$80.2M
Property Valuation:	$80.2M
Property Location:	2 Burke Street and 163 Ipswich Road, Woolloongabba QLD
Property Sector:	Office / Medical
Occupancy:	100%
WALE:	7.2 years (by income)

Return Profile

Forecast Distribution:	Year 1 = 6.5 cents per unit Year 2 = 6.6 cents per unit
Distribution Frequency:	Quarterly, in arrears
Tax advantage:	TBA
Estimated Levered IRR (pre-tax, net of fees):	7.0% - 11.4% p.a. (8.6% p.a. base case). The Manager is targeting an IRR of 10.0% p.a. based on a terminal capitalisation rate of 5.25%, and an IRR of 13.5% p.a. in a Value-Add scenario.
Investment Period:	5 years

Risk Profile

Property/Market Risk:	Capital at risk will depend on a single office property with dual tenants, located in Woolloongabba, QLD.
Interest Rate Movements:	The Fund has fully hedged the initial debt for a period of 5 years. Any change in interest rates during this period will not impact the distributable income of the Fund. A change in interest rates may impact on additional or subsequent debt.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to Section 11: "Investment Considerations and Risks Factors" of the Information Memorandum.

Fees Paid

Core Property considers the Fees to be low when compared to similar products (see Figure 5: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Acquisition Fee:	1.5% of the purchase price
Equity Raising Fee:	1.0% of the Fund equity raised
Property Disposal Fee:	Nil
Management Fee:	0.75% of the Fund's GAV
Expenses:	Estimated at 0.09% p.a. of the Fund's GAV
Leasing Fee	Up to 15% of first year gross rental income (on new leases)
Development Management Fee:	Up to 5.0% of total development costs
Performance Fee:	20% of the outperformance over an IRR of 10.0% p.a. (pre-tax, net of fees).

Debt Metrics – Indicative terms

Drawn Debt / Facility Limit:	$44.1M / $44.1M
Loan Period:	5 years
LVR / LVR Covenant:	55.0% / 60.0%
ICR / ICR Covenant:	3.8x / 2.00x

Legal

Offer Document:	Information Memorandum dated 28 October 2020
Wrapper:	Unlisted Property Fund
Trustee & Manager:	Elanor Funds Management Limited (ABN 39 125 903 031, AFSL 398196)

Fund Overview

The Fund is a close ended, unlisted property fund that provides an investment in the office buildings located at 2 Burke Street and 163 Ipswich Road, Woolloongabba QLD ("the Property"). The Fund has an initial term of 5 years and the Manager is targeting distributions of 6.5% in the first year, increasing to 7.6% in year 5, with average distributions of 7.0% over five years.

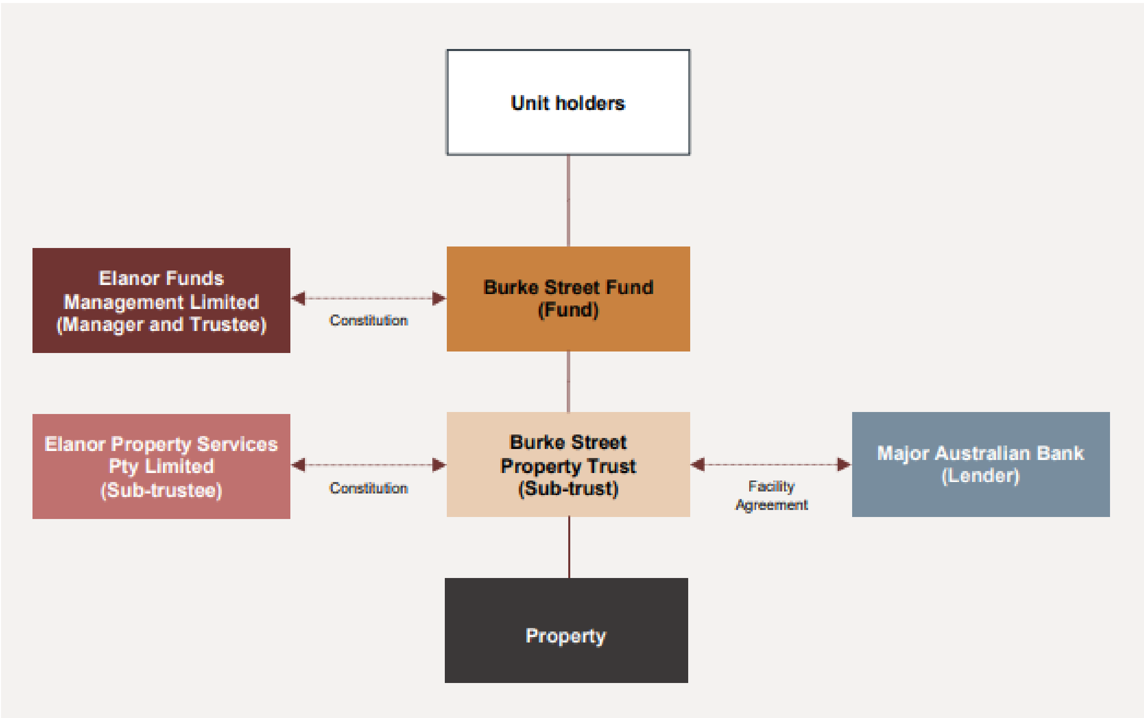
The Fund is managed by Elanor Funds Management Limited ("the Manager") which is a wholly owned subsidiary of Elanor Investors Group (ASX: ENN), an ASX-listed real estate fund manager established in 2014. The Manager is seeking to raise $44.0M through the issuance of 44.0M units at an issue price of $1.00 per unit ("the Offer"). The Offer is available to Wholesale or Sophisticated investors only, under the terms of the Information Memorandum. Elanor Investors Group also intends to subscribe for up to 5% of units on issue, on the same terms and conditions, providing an alignment of interests with investors.

The funds raised will be used, in conjunction with debt to acquire the Property for a purchase price of $80.2M. The Property will be owned by a sub-trust, which is wholly owned by the Fund, to provide flexibility on exit options. The Property consists of two A-grade office buildings situated on a single site of 1.5ha, with space for 185 cars. Building One comprises a two storey building fully leased to the Archdiocese of Brisbane, until November 2029, with an option period of 5 years and rental increases annually by the greater of CPI and 3%. The building was originally constructed in c.1990 with significant refurbishment undertaken in 2011 and 2019. Building Two consists of a purpose-built medical Centre constructed in 2006, leased solely to the Queensland Government – Metro South Health until June 2025, with an option period of 2 x 2 years, and annual rental increases of 3%. Combined, the Property has a WALE of 7.2 years by income with strong tenants in the non-discretionary sectors of healthcare and education, in a prime location in the established medical precinct directly across from the Princess Alexandra Hospital.

The Fund has an initial investment period of five years to December 2025. The Manager has discretion to sell the Property early or extend the Fund if it considers it to be in the best interests of unitholders. Investors should consider the Fund to be illiquid and expect to remain invested for the minimum five-year period.

A summary of the Fund structure is provided below.

Figure 1: Fund structure



Source: Elanor

Fund Strategy

The strategy of the Fund is to acquire and hold the Property to provide a secure-long term income to investors, while exploring a variety of value-add options to improve the value of the Property. This strategy is supported by the strength of the current tenants and previous, current and future development approvals, permissible under the site's "mixed use (Corridor)" zoning.

The core strategy involves actively managing the Property to deepen the tenant relationships and optimizing operating efficiency within the buildings and services. In particular, the Manager will look to supporting the tenant relationship with QLD Health, as part of its existing lease which falls due in June 2025.

The Manager will also explore a variety of value-add options to improve the value of the Property. This may involve the potential expansion of the Property to provide additional NLA for QLD Health or other medical service providers. This may be undertaken either through the expansion of the existing building or the construction of a new premises on excess land on the site. The Property previously had a development approval (which lapsed in April 2020) to demolish Building One (Catholic Education) and construct an 8-storey and 12-storey building in its place.

In addition the Property has an existing development approval to sub-divide the site into two separate lots. This development approval is due to expire on 31 January 2021 and the Manager intends to apply for an extension of this approval. Core Property considers the potential sub division of the site will provide the Fund with an additional option to sell the Property as two separate parcels in the future.

Liquidity / exit strategy

Investors should view the Fund as illiquid and long term, with an investment horizon of five years. However, the Fund may be terminated earlier by the Manager or extended in accordance with the Constitution.

The Manager has discretion to extend or reduce the term of the Fund if it considers it to be in the best interests of unitholders. Investors should note that liquidity in the Fund is intended to be provided by way of the sale of the Property, which is subject to market conditions. Investors may sell or transfer their units in the Fund to a third party, with the approval of the Manager and subject to the investment requirements of the Fund.

Sources & application of funds

The following table sets out the sources and application of funds for the acquisition of the Woolloongabba asset.

Figure 2: Sources and Application of Funds

	$M	% of portfolio purchase price	% of total funds
Sources of funds			
Equity subscriptions	$44.0M	54.9%	50.0%
Bank debt	$44.1M	55.0%	50.0%
Total sources of funds	**$88.1M**	**109.9%**	**100.0%**
Application of funds			
Purchase price	$80.2M	100.0%	91.0%
Acquisition Costs	$4.9M	6.1%	5.5%
Debt & Fund Establishment Costs	$1.3M	1.6%	1.4%
Managers Fee	$1.2M	6.5%	1.4%
Working Capital	$0.6M	0.7%	0.6%
Total application of funds	**$88.1M**	**109.9%**	**100.0%**

Source: Elanor, Core Property

Debt Facility & Metrics

The Manager has obtained preliminary credit approval for a $44.1M debt facility from a major Australian bank to facilitate the purchase of the Property. The debt facility will be fully hedged at an all-in-cost of approximately 2.30% p.a. for five years.

- The debt facility will have an initial Loan to Valuation (LVR) ratio of 55%, against an LVR covenant of 60%. Core Property estimates that the value of the Funds property must fall by 8.3% in order to breach the LVR covenant.
- The initial Interest Coverage Ratio (ICR) is calculated to be 3.8x, with an LVR covenant of 2.0x. Core Property calculates that net passing income must decline by 53.9% for the ICR covenant to be breached.

Core Property notes that the debt is fully hedged for a five-year term, which provides a level of certainty over the initial five-year term of the Fund. The debt facility will need to be extended or replaced for any period thereafter.

Figure 3: Proposed Debt Metrics

Details	Metric
Bank	Major Australian Bank
Security	First mortgage over the Property with a charge over the assets of the Fund.
Debt Facility Limit	$44.1M
Drawn Debt	$44.1M
Initial Loan Period	5 Years to December 2025
Effective Interest Rate	Approximately 2.30%
Fixed/Hedged	100% hedged
Initial LVR	55%
LVR Covenant	60%
Interest cover ratio / bank covenant	3.8x / 2.0x
Amount by which valuation of properties will have to fall to breach LVR covenant	8.3%
Amount by which income will have to fall to breach ICR covenant	53.9%

Source: Elanor, Core Property

Fees Charged by the Fund

A summary of fees charged by the Fund is provided in the table below. Core Property notes:

- The Fund charges Management Fees based on 0.75% of the Gross Asset Value (GAV) of the Fund. Core Property considers this to be at the low end of what we have typically seen in the market (0.7% - 1.1% of GAV).
- The Fund charges a 1.0% equity raising fee on the amount of equity raised. Core Property notes that an equity raising fee is not uncommon on similar funds in the industry.
- The Manager has targeted around $90,000 in potential cost savings across the first two years of the Fund. The Manager has indicated that it would be willing to reduce its Management Fees if necessary, in order to achieve these costs savings.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit/Withdrawal Fee	Nil	
Equity Raising Fee	1.0% of the Fund equity raised	Fee is payable out of the assets of the Fund.
Property Acquisition Fee	1.5% of the purchase price of the Property.	The Acquisition Fee is at the low end of the industry average of 1.5% - 2.0%.
Property Disposal Fee	Nil	Whilst no Disposal Fee is charged, any fees to external selling agents will be deducted from the proceeds of the sale of any asset.
Management Fee	0.75% p.a. of the Gross Asset Value (GAV) of the Fund.	The Management Fee is at the low end of the industry (0.7% - 1.1% p.a. of GAV).
Administration Costs & Expenses, Other Indirect Costs	Fund expenses have been estimated at approximately 0.09% p.a. of the Gross Asset Value of the Fund.	Expenses and indirect costs are payable from the assets in the Fund and payable when incurred.
Development Management Fee	5.0% (excl. GST) of total development costs (being the total cost of any development works undertaken)	Paid on any development undertaken by the Fund.
Leasing Fees	Up to 15% of the first year of gross rental income (plus GST)	Paid on the commencement of a new lease
Performance Fee	20% (excl. GST) of the Fund's performance above an IRR of 10.0% p.a. after fees and costs.	The benchmark hurdle is in line with current market expectations.

Source: Elanor, Core Property

All-in fee analysis

In the table below, Core Property analyses how much of the Fund's cash goes to Manager fees, and how much is left over for investors as a percentage of the total Fund cash flow. The key assumptions include:

- Calculations are based on an initial five-year term to December 2025.
- A Performance Fee has not been included.
- Core Property assumes there is no change in the portfolio capitalisation rate throughout the investment term. A lower terminal cap rate (which the Manager is targeting) would lead to a higher sale price and hence, higher performance fees may be payable.

Overall, Core Property estimates that the Manager is entitled 6.3% of the total cash generated by the Fund. Core Property considers the fees paid to the Manager to be low when compared to similar products, which are typically around 7% - 9%. Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 5: Fees in Perspective

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$0.44
Total cash to investors:	**$1.44**
Acquisition fee:	$0.03
Disposal fee:	$0.00
Base management fee:	$0.07
Fees for the Manager (excluding admin costs)	**$0.10**
Total cash generated by the Fund	**$1.53**
Fees = % of total cash generated (before fees)	6.3%
Up-front fee vs total fees	28.3%

Source: Core Property

The Property

2 Burke Street and 163 Ipswich Road, Woolloongabba, QLD is situated on the south western corner of Ipswich Road and Burke Street. Situated on a 1.5 ha site, the Property comprises 8,637 sqm of NLA provided by a purpose built three-level medical office building fully leased to QLD Health, and a fully refurbished two-level office building solely leased to the Catholic Church Archdiocese of Brisbane.

The Property is situated in a prime location in an established medical precinct directly across the Princess Alexandra Hospital and is within walking distance to the Park Road Railway Station and the new Boggo Road Metro and Cross River Rail Stations, due to be completed in 2023 and 2024 respectively. The Property has quality car and public accessibility, with access via Burke Street and frontage to Ipswich road. The site has a total of 185 car spaces, 124 allocated to the Roman Catholic Archdiocese and 61 bays to QLD Health.

Both buildings are fully occupied with lease expiries in June 2025 and Nov 2029, with a gross income WALE of 7.2 years. The Property is currently zoned as 'Mixed Use (Corridor)' under the Brisbane City Plan 2014 and further classified within the 'Buranda Corridor 1B Sub-Precinct' of the Eastern Corridor Neighborhood plan. The Neighborhood plan allows for buildings to have a height of up to 12 storeys, providing value add potential to expand the buildings level, which span from 2 to 3 storeys currently. The Property holds significant opportunity from a current development approval for sub-division of the site into two separate sites, and previous development approval for the creation of an 8 and 12 storey building on the site.

Figure 6: Property metrics

Property	Acqn Date	NLA (sqm)	Key Tenants	Valn	Cap Rate	Occ %	WALE by income
2 Burke Street and 163 Ipswich Road, Woolloongaba, QLD 4102	December 2020	8,637	Catholic Archdiocese, State of Queensland (Metro South Health)	$80.2M	5.50%	100%	7.2
Total		**8,637**		**$80.2M**	**5.50%**	**100%**	**7.2**

Figure 7: 2 Burke Street and 163 Ipswich Road,Woolloongaba QLD

Building One: Roman Catholic Archdiocese

Building Two: The State of Queensland (Metro South Health)

Source: Elanor

Property Valuations

An independent valuation was undertaken by CBRE in August 2020 valuing the Property at $80.2M, in line with the acqustion price. A summary of the valuation metrics is provided below.

Figure 8: Valuation Metrics

	2 Burke Street and 163 Ipswich Road, Woolloongabba QLD
Title	Freehold
Acquisition date:	December 2020
Site Area	15,430
Net Lettable Area	8,637 sqm
Major Tenant (% NLA)	Roman Catholic Archdiocese (54.4%) The State of Queensland (Metro South) (45.6%)
Weighted Average Lease Expiry	7.2 years
Occupancy	100%
Initial net passing income	$4.4M
Net Market income (fully leased)	$4.6M
Purchase price	$80.2M
Valuation	$80.2M
Passing initial yield	5.42%
Capitalisation rate	5.50%
Valuer	CBRE
Valuation Date	August 2020
Valuer's Discount rate	6.50%
Valuer's Terminal Yield	5.75%
Value/sqm	$9,268 per sqm
Valuer's unleveraged 10-year IRR	6.42%

Source: CBRE

Leases, tenants and income

Building One is fully leased to the **Roman Catholic Archdiocese of Brisbane**, who occupy 4,698 sqm of the total NLA (54.4% of NLA, 57.9% of income). The lease term is for 10 years (Dec 2019 – Dec 2029) with an option period of 5 years. The lease is structured on a net rental basis, whereby the tenant is responsible for 57.1% of any outgoings that are not directly attributable to the premises and car parking spaces, and 100% of any outgoings that are directly attributable to the premises and car parking spaces.

The lease is subject to annual rent reviews of the greater of CPI or 3.0%. If the Catholic Church exercises their option to extend their lease term, the rent is subject to an "effective" market rent review with a 5% cap and collar.

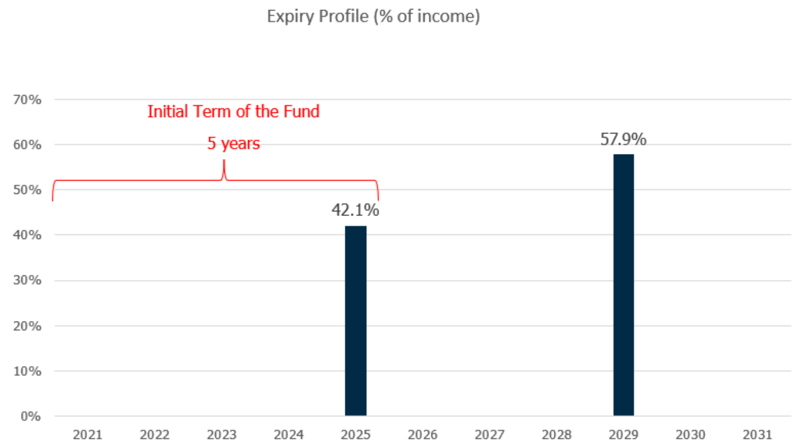
As part of the lease, the tenant holds a Right of First Refusal (ROFR), meaning if the Fund wishes to sell the building, it must notify the Catholic Church first and provide them a copy of the terms of any offer to purchase the Building received from a third party buyer or any offer to sell the Building provided by the Seller. This ROFR allows a 30 day period for the tenant to accept the terms offered by the Landlord. If the ROFR is declined, the Property can be sold to a third party on the same terms.

The Archdiocese of Brisbane is responsible for delegating authority for the administration and management of Catholic schools in the Archdiocese of Brisbane to the Executive Director of Catholic Education. The Archdiocese operate a range of services such as Parishes, Schools, early EdCare, aged care, disability and family and relationship services over 77,000 square km's of South East Queensland. Through these services, the Archdiocese is responsible for almost 22,000 jobs and approximately $2.5bn to the QLD economy.

Building Two is fully leased to **The State of Queensland (Metro South Health)**, who occupy 3,939 sqm (45.6% of NLA, 42.1% of income). The current lease term is for 7 years (Jul 2018 – Jun 2025) with an option period of 2 x 2 years. The lease is subject to annual rent reviews of 3% on the anniversary of the commencement date. The lease is structured on a gross rent basis, whereby the tenant is not liable to pay outgoings for its proportionate share of the property and is only liable to pay the cost of electricity and other utilities consumed in the premises.

Metro South Health the major provider of public health services, and health education and research in South Brisbane, Logan, and Scenic Rim regions. They serve an estimated population of 1M people (23% of QLD population) and employ over 14,000 staff, with an annual operating budget of $2.3B. Metro South Health is responsible for 5 major hospitals, including the Princess Alexandra Hospital opposite the property, in addition to a number of health centers throughout the region, covering approximately 3,856 square kms. The building was purpose built in 2006 for Metro South Health, who operate the Burke Street Centre from the site. Services provided at the Centre are based around medical consulting offices for diabetes, gastroenterology and hepatology, and pain management. The Centre also serves as offices for Cancer Alliance Queensland.

Figure 9: Property lease expiry (by income)



Source: Elanor

Market Sales Evidence

The table below is a summary of the most relevant comparable sales transactions of the property over the last 12 months, as provided in the independent valuation report by CBRE. The Property is being acquired at a rate of $9,286 per sqm, which is at the mid to lower end of comparable transactions which range from $5,304 - $14,215 per sqm.

Figure 10: Comparable sales transactions

Property Address	Type	Date	Sale Price	Initial Passing Yield	Price per sqm
695 Sandgate Road, Clayfield	Office/Medical	Nov 20	$36.5M	5.69%	$12,377
209 Robina Town Centre, Robina	Business Park	Aug 20	$41.3M	6.50%	$6,818
55 Little Edward Street, Spring Hill	Office/Medical	Mar 20	$83.3M	6.26%	$10,304
119 – 123 Nerang Street Southport	Private Hospital	Mar 20	$40.0M	5.39%	$5,034
19 Lang Parade, Milton	Office	Dec 19	$85.2M	8.23%	$6,221
655 Fairfield Road, Yeerongpilly	Office	Oct 19	$35.2M	6.43%	$8,389
11 Liverpool Street Townsville	Office	Oct 19	$26.2M	5.93%	$6,132
164 Grey Street, South Brisbane	Office/Medical /Retail	Jul 19	$44.7M	5.27%	$14,215
Range				**5.39% - 8.23%**	**$5,034 - $14,215**
2 Burke Street and 163 Ipswich Road, Woolloongabba		**Dec 20**	**$80.2M**	**5.42%**	**$9,286**

Source: CBRE

Market Rental Evidence

The figures below shows details of comparable lease deals as provided by the independent Valuer. Overall, the independent valuer considers Catholic Education to be within acceptable market parameters with a passing rent of $563 per sqm gross. However, QLD Health is considered to be below market parameters with a market rental of $550 per sqm gross, and a passing rent of $488 per sqm gross.

Both leases of the property include rental income from car parking. The independent Valuer has determined that the passing rentals of $268 per bay per month for the Archdiocese of Brisbane and $191 per bay per month for QLD Health are within acceptable market parameters.

A summary of the Valuer's comparable rent is provided in the figure below.

Figure 11: Rent Analysis

Property Address	Tenant	Commence Date	Area (sqm)	Rent per sqm
44 Musk Avenue, Kelvin Grove	Bolton Clarke	Aug 20	3,358	$505
15 Green Square Close, Fortitude Valley	Singtel Optus Pty Limited	Jul 20	6,789	$625
25 Montpelier Road, Bowen Hills	Multiple	Apr 19	1,089[1]	$565[1]
135 Coronation Drive, Milton	Downer EDI	Oct 19	7,137	$599
515 St Pauls Terrace, Fortitude Valley	Sunwater Limited	May 19	4,566	$481
144 Montague Road, South Brisbane	The State of Queensland	May 19	2,680	$550
61 Petrie Terrace, Petrie Terrace	Multiple	Sep 18	3,925[1]	$600
35 Boundary Road, South Brisbane	Parmalat	Apr 19	3,276	$600
164 Grey Street, South Brisbane	Queensland X-ray Pty Ltd	Mar 19	1,615	$600
55 Little Edwards Street. Spring Hill	Eve Health Australia	Mar 19	214	$453
Range / Average				**$453 - $625 per sqm**

Note 1: Based on average across multiple tenants. Source: CBRE

Capex

The independent valuation has identified around $1.3M of capital expenditure requirements for the Property. 163 Ipswich Road (Archdiocese of Brisbane) underwent recent refurbishment in 2019. The Fund forecasts minimal capital expenditure to be undertaken for the Property over the next 5 years.

The Replacement of Mechanical Services within 2 Burke Street is estimated to cost a total of $0.4M, additionally the Replacement of Roof Building Fabrics of 163 Ipswich Road is estimated to cost a total of $0.4M. This is expected to be supported by around $0.6M of additional Working Capital which is being raised as part of the Offer.

Financial Analysis

Core Property has undertaken a financial forecast of the Fund, based on the Manager's assumptions.

Our key observations are:

- The Manager is forecasting initial distributions of 6.5% p.a. in Year 1, increasing to 7.6% in Year 5. Average distributions are forecast to be 7.0% over five years.
- The forecasts assume the current lease agreements remain in place for the duration of the Fund, with contracted average rent increases of 3.0% p.a.

A summary of the Manager's forecasts, as provided in the IM, is presented in the table below.

Figure 12: Profit & Loss Forecast and Balance Sheet

	12-month period ending				
Profit & Loss - Forecast $M	**Dec 2021**	**Dec 2022**	**Dec 2023**	**Dec 2024**	**Dec 2025**
Portfolio Net Operating Income	**4.5**	**4.6**	**4.7**	**4.9**	**5.0**
Interest Costs	-1.0	-1.0	-1.0	-1.0	-1.0
Management Fees and Fund Costs	-0.6	-0.7	-0.7	-0.7	-0.7
Total Available for Distribution	2.8	2.9	3.0	3.2	3.3
Forecast Distribution	**2.8**	**2.9**	**3.0**	**3.2**	**3.3**
Forecast Distribution per unit (cpu)	**6.5**	**6.6**	**6.9**	**7.2**	**7.6**
Forecast Distribution Yield (% p.a.)	**6.5%**	**6.6%**	**6.9%**	**7.2%**	**7.6%**
Balance Sheet – Forecast $M					**Pro forma on acquisition (expected Dec 2020)**
Assets					
Cash at bank					0.6
Investment Property					80.2
Other assets					-
Total Assets					**80.8**
Liabilities					
Borrowings					44.1
Other Liabilities					-
Total Liabilities					**44.1**
Net Assets					**36.7**
NTA per Unit					**$0.83**

Source: Elanor

Initial NTA

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Fund. Core Property has calculated the NTA at $0.83 per unit, with most of the dilution coming from acquisition costs.

Figure 13: Initial NTA

Amount per unit	$ per unit
Issue Price	$1.00
Less:	
Stamp Duty/Acquisition Costs	-$0.11
Acquisition Fee	-$0.03
Debt & Fund Establishment Costs	-$0.04
Add: Working capital	$0.01
NTA per unit	**$0.83**

Source: Core Property

Expected Future Performance (IRR Sensitivity)

Core Property has estimated the total return from the Fund based on the assumptions provided by the Manager. The Internal Rate of Return (IRR) has been estimated on a Base Case Scenario where the Property is sold at the end of five years with lease terms renewing at similar terms on expiry.

Based on these assumptions, Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 7.0% - 11.7% p.a. (base case 8.6% p.a.). Investors should note the Manager is targeting an IRR of 10.0% p.a. based on achieving a terminal capitalisation rate of 5.25%. The Manager is also targeting an IRR of 13.5% p.a. under a Value-Add scenario on the basis of a potential expansion of the Property. The Value-Add scenario should be considered as indicative only, as the returns are dependent on securing a lease commitment from QLD Health for the additional space and sale to a developer proceeding and will be subject to the market conditions at the time.

The calculations assume an average all-in cost of debt of approximately 2.30% p.a. being fully hedged over the five-year investment term. Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions at the time of sale) which will result in either a capital gain or loss for investors.

Figure 14: Pre-tax, 5-year IRR (after fees) sensitivity analysis

Terminal Cap Rate	IRR Base case
5.00%	11.7%
5.25% (Manager target)	10.1%
5.50% (base case)	**8.6%**
5.75%	7.0%
6.00%	5.6%

Source: Core Property

Management & Corporate Governance

Background of the Trustee & Manager

Elanor Investors Group (parent of Elanor Funds Management) is an ASX-listed Australian investment and funds management business operating over $1.8B funds under management. The Management team has had a proven track record in acquiring and managing assets across a range of real estate sectors.

Core Property has reviewed the composition of the Board and Senior Management of the Trustee and Manager and believes that it has the relevant skills and experience to operate the Fund. Each Director has demonstrable property and investment management skills, with no less than 20 years' property or finance experience.

Figure 15: The Board of the Trustee & Manager

Name & Role	Experience
Paul Bedbrook Chairman	Paul has over 30 years' experience in financial services, originally as an analyst, fund manager and GM & Chief Investment Officer of Mercantile Mutual Investment Management (ING owned) from 1987. In total, he was an executive for 26 years with ING Bank, with roles including: President and CEO of ING Direct Bank-Canada, CEO of the ING Australia/ANZ Bank Wealth JV, and Regional CEO for ING Asia Pacific, Hong Kong. Paul was appointed a Director of both ERF and the RE in June 2014 and is also the Chairman of Zurich Financial Services Australia and its Life, General and Investment Companies.
Nigel Ampherlaw Non-Executive Director	Nigel was appointed a Director to the RE in June 2014. Prior to this, he was a Partner of PricewaterhouseCoopers for 22 years. Nigel has extensive experience across a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. Nigel is the current Chairman of Credit Union Australia and a member of the Strategy Committee. He is also a non-executive director of Quickstep Holdings Ltd and the Australia Red Cross Blood Service.
Kin Song Lim Non-Executive Director	Kin Song has over 20 years' experience in the real estate sector across Australia and South East Asia, specialising in acquisitions, asset management, business development and leasing. He is currently the CEO of Rockworth Capital Partners and has been a key driver of Rockworth's rapid growth since its inception in 2011. Prior to founding Rockworth, he held various positions in leading property groups in Asia, including Frasers Centrepoint Ltd, Ascendas-MGM Funds Management and the CapitaLand Group. Kin Song holds a MBA from the Nanyang Technological University and a Bachelor of Science (Honours) in Estate Management from the National University of Singapore. He is also a member of the Singapore Institute of Surveyors and Valuers (SISV) and the Royal Institute of Chartered Surveyors (RICS), and a Chartered Commercial Property Surveyor.
Tony Fehon Non-Executive Director	Tony has over 30 years' experience working amongst Australia's leading financial services and funds management businesses. He is an Executive Director of Volt Bank Limited, with a primary responsibility for capital management. Prior to this, he was an Executive Director for Macquarie Bank where he was involved in the formation and listing of several Macquarie's listed property trusts. In addition, Tony is also a director of enLighten Australia and Team Mates Pty Limited.
Glenn Willis Managing Director	Glenn has over 30 years' experience in Australian and international capital markets. Prior to the establishment and ASX listing of Elanor Investors Group in July 2014, Glenn was the co-founder and CEO of Moss Capital (now Elanor Investors Group). Before this, he co-founded Grange Securities and led the team in his role as Managing Director and CEO before it was acquired by Lehman Brothers International in 2007 as the platform for Lehman's Australian investment banking and funds management operations.

Figure 16: Senior Management Team

Name & Role	Experience
Glenn Willis **Managing Director**	See Board of Directors above.
Michael Baliva **Co-Head of Real Estate**	With over 24 years' experience in the Australian and international property industry, Michael is responsible for the acquisition and investment management of real estate assets, with a focus on the retail sector. Prior to Elanor's listing, Michael held the positions as an Executive Director of Real Estate at Moss Capital for five years, and a Chief Investment Officer of Centro Properties in the USA where he was responsible for 235 properties valued at US$6.4B.
David Burgess **Co-Head of Real Estate**	David has over 20 years' experience in property and equity markets, most recently as the Head of Investment, Office and Logistics at GPT. David's experience also encompasses a number of property valuation roles and equity research roles at Credit Suisse and Citigroup. At Elanor, David is responsible for development and overall investment performance of Elanor's commercial and healthcare real estate platforms.
Paul Siviour **Chief Operating Officer**	Paul has over 30 years' experience in senior roles in financial services, investment banking and corporate finance. Prior to Elanor's listing, Paul was the Oceania Leader of Banking and Capital Markets and a partner in the Financial Services practice at EY. He has also held a number of positions at Investec Bank Australia, including Co-Head of the Private Bank and Senior Mergers and Acquisitions Adviser.
Symon Simmons **Chief Financial Officer,** **Company Secretary**	Symon has over 23 years' business management experience, most recently as Chief Operating Officer at Moss Capital, where he was responsible for the firm's Finance, Corporate, Human Resources, Legal and Administration functions. Symon previously worked for EY gaining experience across a range of businesses and transactions. He is Chairman of a social enterprise, Global Ethics Australia, and chairman and founder of The One Foundation Australia, which supports essential infrastructure projects in developing nations in Africa and Asia.

Source: Elanor

Compliance and Governance

The Fund is not registered with ASIC as a managed investment scheme. As an unregistered scheme, the Fund does not have a compliance plan, compliance committee, or related-party policy of its own. Instead, the Fund will be subject to the compliance policies of its Manager, Elanor Funds Management Limited, which is a wholly owned subsidiary of Elanor Investors Group (ASX: ENN).

As a listed entity, Elanor Investors Group has as a compliance plan, an audit & compliance committee, and policies covering related-party transactions and conflicts of interests.

Past Performance

Elanor Investors Group (ASX: ENN) listed on the ASX in July 2014 with $173M of assets under management and has since grown this to $1.8B. The Manager has advised that it has realised a total of 13 unlisted property funds, delivering an average IRR to investors of 19.7% (range 7.7% - 46.4%) with an average hold period of 3.2 years.

Investors should note that past performance is not a reliable indicator of future performance as each syndicate – and its respective underlying asset – has its own specific risks and attributes, which operate differently under different market conditions.

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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