Core Property
Fund Research & Ratings
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Unlisted Property Trust Report

Fortius Grenfell Car Park Trust

October 2020

Prime commercial car park in Adelaide CBD
targeting 7.0%+ distributions

For wholesale investors only

Fortius Grenfell Car Park 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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Fortius Grenfell Car Park Trust

October 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

The Fortius Grenfell Car Park Trust *("the Trust" or "the Fund")* is an unlisted property fund with an initial term of five years. The Trust Manager, Fortius Funds Management Pty Limited (the "Manager") is seeking to raise $29.5M through the issue of 29.5M units at $1.00 per unit ("*the Offer*") to acquire the car parking station at 90-100 Grenfell Street, Adelaide SA ("*the Property*"). The offer is available to wholesale investors only.

The Trust provides a rare opportunity to invest in a pure car parking asset located in a prime CBD location, currently managed by Secure Parking, a leading national car park operator.

The Property is a dominant car park with 506 car spaces over seven-levels, located in the heart of the Adelaide retail and CBD precinct. The car park provides direct access across five levels to Rundle Place, the premium retail shopping centre, and is connected via one level to the office building at 80 Grenfell Street. The car park is supported by economic factors which include a high proportion of car usage in Adelaide, with over 80% of the SA population commuting via motor vehicles. Core Property considers the car park to be in a premium location and expects it will be well sought after by car park operators.

The Trust seeks to initially provide investors with distributions based on the operating profitability of the car park. This is dependent on the revenue from the car park (or parking fees) less expenses (property, management fees and Trust expenses). Secure Parking undertakes the day to day operations of the car park, under a management agreement which runs to May 2022. At expiry (or earlier), the Manager expects to enter a new lease agreement or extend the management agreement. A new lease agreement would provide a stable, secure income stream for investors, effectively transferring the risk and profitability of the car park to the operator. However, a continuation of the management agreement would mean investors will continue to receive distributions from the profitability of the car park.

The Manager is forecasting an initial distribution of 7.00% p.a. in the first year, which includes an allowance for a decline in car park revenue over the first 12 months. Distributions are forecast to be 7.2% – 8.5% for years 2-5. Core Property notes the distributions are dependent on the continued strong performance of the car park under the management agreement.

Core Property notes the initial NTA is forecast to be $0.96 per unit, with investors benefitting from no stamp duty expenses in SA. This supports overall investor returns as well as distributions due to lower equity requirements.

The Fund will look to establish a three-year debt facility with an initial Loan-To-Valuation Ratio (LVR) of 46.5% against an expected LVR covenant of 55.0%. The LVR is forecast to peak at 47.4% during the initial five-year term of the Trust. Fees paid by the Fund are at the low end of what Core Property has seen in the market.

Core Property estimates the Trust to deliver a pre-tax Internal Rate of Return (IRR) of between 8.2% p.a. – 11.9% p.a. (net of fees) based on our assumptions (*see Expected Future Performance*). It should be noted a base case IRR of 10.6% p.a. assumes flat capitalisation rates. Our analysis includes the potential that investors may receive a capital gain or loss, and an IRR outside this range is possible based on market conditions.

It is important that investors acknowledge that a pandemic caused by the spread of the COVID-19 virus can adversely impact the performance of the Trust amidst macroeconomic uncertainty. The duration and severity of the outbreak is uncertain and may negatively impact property values and potentially lower investor returns.

Investor Suitability

In Core Property's opinion, the Trust would suit investors who are comfortable with an exposure to a car parking station located in a premium CBD retail and office location. Investors should appreciate the initial earnings of the Trust are based on the operating profitability of the car park, which is driven by the Adelaide economy, and may be impacted by COVID-19. Investor returns will also be driven by the Manager's ability to secure a stable income stream as part of the expiry of the management agreement in May 2022. The Fund is illiquid, and investors should expect to remain invested for the minimum initial term of five-years.

Fund Details	
Offer Open:	20 July 2020
Offer Close:	December 2020[1]
Min. Investment:	$100,000[2]
Unit Entry Price:	$1.00
Initial NTA per unit:	$0.96
Liquidity:	Illiquid
Forecast Distributions:	7.00 cpu – 8.5 cpu[3] (average 7.5 cpu)
Distribution Frequency:	Quarterly
Initial Investment Period:	5 years to December 2025

1. The acquisition is subject to FIRB approval. The Manager has reserved the right to close the Offer early or extend the Offer.
2. Or as otherwise agreed by the Manager
3. Based on the Manager's forecasts for five years.

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Fund – Website

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Note: This report is based on the Fortius Grenfell Car Park Trust Information Memorandum October 2020 (Revised) dated 20 October 2020, together with other information provided by Fortius Funds Management.

Key Considerations

Management: Fortius has been involved in property investment management since 1991, with over $4.4B in property projects across more than 85 assets. The Manager has advised that it has delivered a weighted average IRR of 17% to investors over the past 25 years on assets realised or sold.

Property: 90-100 Grenfell Street is a seven-level car parking station located in the prime retail precinct of the Adelaide CBD. The Property operates as a Secure Parking car park with 506 car spaces. The Property connects with direct access to all retail levels of the Rundle Place retail centre, as well as one connection level to the office building at 80 Grenfell Street. The Property is to be acquired for $55.0M with settlement expected in December 2020. The transaction to acquire the Property is subject to FIRB approval.

Demographics: Adelaide has a population of 1.3M people (2018 census) with forecast average growth of 0.8% p.a. over the next decade. Usage of the Property is supported by a high propensity of car usage in Adelaide, with over 80% of the SA population commuting via motor vehicles. The Property is located in the prime retail position in the Adelaide CBD with usage from both office and retail commuters. COVID-19 impacted the car park with operating profit for the June 2020 quarter at 50.3% of the prior June 19 quarter, but has since rebounded to 91% in September 2020 (compared to the September three year average).

Management Agreement: The existing management agreement requires Secure Parking to operate the car park and will be reimbursed for the costs of doing so, a small base profit (around $39,914 p.a.) plus a share of the profit once certain thresholds are met. This effectively means the Property owner earns a profit from the car park business, whilst paying a management fee to Secure Parking to undertake the day to day operations. The Manager intends to propose the car park operator to earn the profit on the car park business and become a long-term tenant at the Property by way of a new rental agreement.

Strategy: The Manager intends to enhance the value of the Property by: (1) undertaking upgrades, with a budget of $0.6M to be spent on improving facilities in FY21; and (2) working towards securing a stable income stream for investors. A new long-term lease structure will be proposed to replace the current management agreement, which expires in May 2022.

Debt Profile: The Trust has indicative terms for a three-year debt facility for $25.6M with an estimated average cost of 2.20% p.a. The initial Loan to Valuation Ratio (LVR) is 46.5% and the initial Interest Coverage ratio (ICR) is 4.6x, with bank covenants expected to be at 55% LVR and 2.75x ICR. An additional drawdown of $1.0M is expected to fund capital expenditure over five years, with the LVR estimated to peak at 47.4%.

Initial NTA: The Trust's initial NTA is $0.96 per unit, with the Trust benefitting from no stamp duty costs being payable on the acquisition.

Distributions: The Manager is forecasting distributions of 7.0% p.a. in the first year, increasing to 8.5% p.a. in year five, with average distributions of 7.5% over 5 years.

Impact of COVID-19: Investors should also be aware that property valuations may be impacted by short term volatility as a result of COVID-19. This may affect the long-term capital returns from the Fund. It is also important to recognise that property markets are cyclical. Over a 25-year history of measuring returns, typically, 70% - 80% of total returns are derived via income returns which is an important feature for long-duration assets such as property.

Fees: Core Property considers the fees to be on the low end of what has been seen in the market across all categories (*see Figure 5: Fees in Perspective*).

Total Returns: Core Property estimates the Trust to deliver an IRR of 8.2% - 11.9% p.a. based on the Manager's strategy with capitalisation rates of 5.25% - 6.25% and assuming a +/- 50bps movement in interest rates. Our base case IRR of 10.6% p.a. assumes flat capitalisation rates (at 5.75%). Investors should be aware the Fund is exposed to a capital gain or loss based on market conditions and lease outcomes, which may deliver an IRR outside this range.

Illiquid investment: The Fund should be considered illiquid and investors should expect to remain invested for the initial minimum five-year term to around December 2025.

Investment Scorecard

Management Quality
★★★★☆

Governance
★★★★☆

Portfolio
★★★☆☆

Income Return
★★★★☆

Total Return
★★★★☆

Gearing
★★★☆☆

Liquidity
★☆☆☆☆

Fees
★★★★☆

Key Metrics

Fund Structure

An unregistered managed investment scheme investing in a commercial car park in the Adelaide CBD.

Management

Fortius Funds Management Pty Ltd is an independent specialist Australian property funds management group established in 1991, which specializes in all sectors of real estate investment including office, retail, industrial and residential. Fortius currently has over $1.5 billion of assets under management.

Property Portfolio

No. of Properties:	1
Acquisition Price:	$55.0M
Property Location:	90-100 Grenfell Street, Adelaide SA
Property Sector:	Commercial car park
Operator:	Secure Parking
Operator Agreement Period:	1.4 years remaining (expiry May 2022)

Return Profile

Forecast Distribution p.a.:	7.0% (year 1) rising to 8.5% (year 5) (Average: 7.5% p.a. over 5 years)
Distribution Frequency:	Quarterly
Tax advantage:	TBA
Estimated Levered IRR (pre-tax, net of fees):	8.2% - 11.9% p.a. (base case 10.6%). An IRR outside of this range is possible. See Expected Future Performance (IRR Sensitivity).
Investment Period:	5 years from acquisition date (est. Dec 2025)

Risk Profile

Property/Market Risk:	Capital at risk will depend on a single asset property in Adelaide SA. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Strategy Risk:	The strategy is dependent on a number of variables and includes finance risk and leasing risk.
Interest Rate Movements:	Any change in the cost of debt will impact any additional borrowings the Manager intends to undertake.
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 5: "Risks" section of the Information Memorandum.

Fees Paid

Core Property considers the Fees charged by the Fund to be at the low end of what has seen in the market (see Figure 5: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Property Acquisition Fee:	1.50% of purchase price
Property Disposal Fee:	Nil. If an external agent is used to sell the Property, the costs will be deducted from the assets of the Fund.
Management Fees:	0.50% p.a. of GAV of the Trust
Admin and Other Fees:	Estimated at 0.12% of GAV of the Trust (Year 1)
Performance Fee:	A 20% Outperformance fee over an IRR hurdle rate of 8%.

Debt Metrics – Indicative Terms

Initial Debt / Facility Limit:	$25.6M / $27.5M
Loan Period:	3 Years (estimated)
Initial LVR / LVR Covenant:	46.5% / 55.0% (indicative)
Initial ICR / ICR Covenant:	4.6x / 2.75x (indicative)

Note: Debt metrics are indicative only and subject to the finalisation of the debt facility by the Manager, expected by settlement in December 2020.

Legal

Offer Document:	Fortius Grenfell Car Park Trust Information Memorandum October 2020 (Revised), dated 20 October 2020
Wrapper:	Unlisted Property Trust
Trustee:	Fortius Grenfell No.3 Pty Ltd (ACN 643 074 168)
Manager:	Fortius Funds Management Pty Limited (ACN 093 111 641, AFSL 289 244)

Overview

Trust Structure

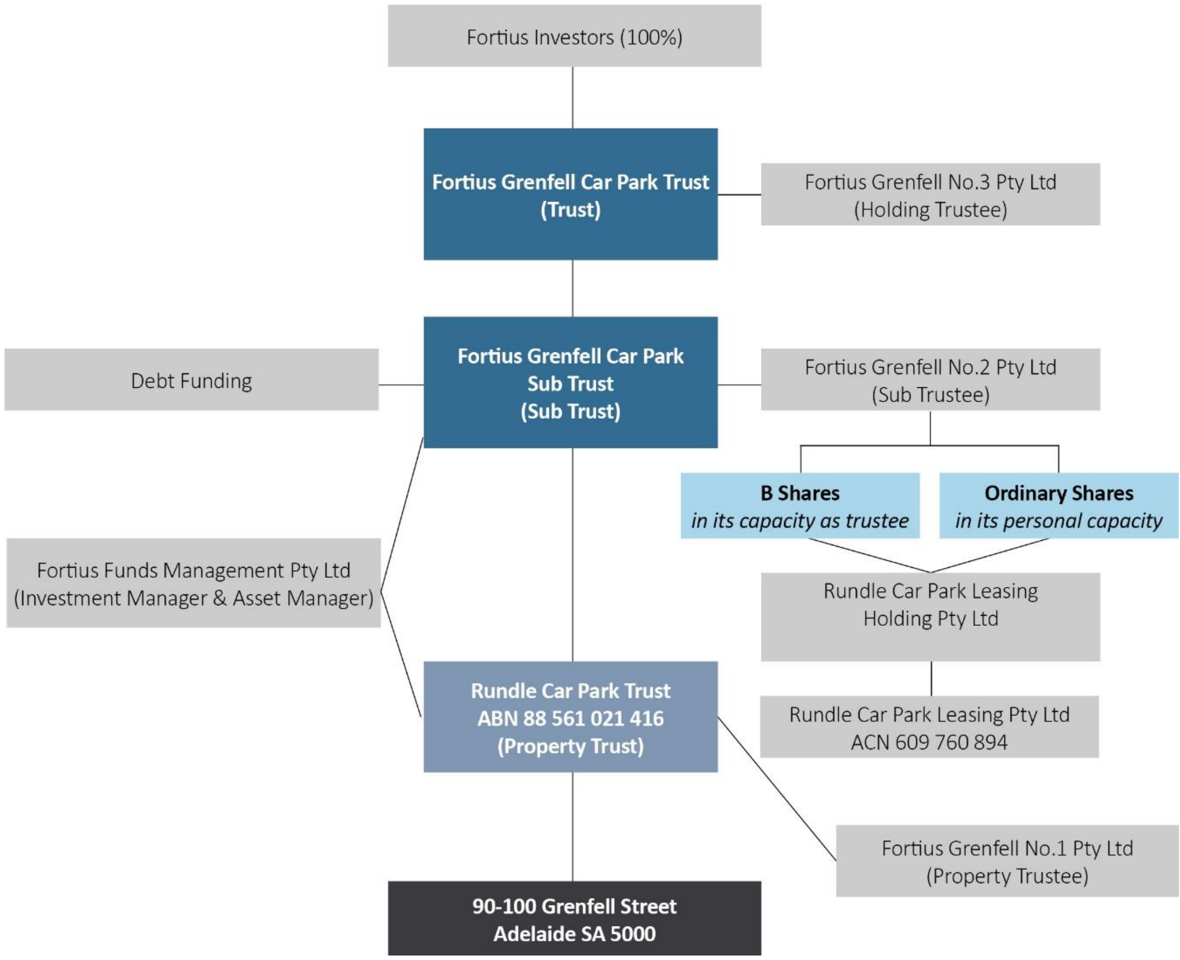
The Trust is a closed-ended, single asset, unlisted property fund that provides an opportunity to invest in a seven-level car parking station located at 90-100 Grenfell Street, Adelaide, South Australia ("the Property"). Fortius Funds Management Pty Ltd ("the Manager ") is seeking to raise $30.6M in equity through the issue of 30.6M units at $1.00 per unit ("the Offer"). The Offer is open to wholesale investors only, with a minimum investment of $100,000.

The Property is a seven-level car parking station located in a prime retail location in the centre of the Adelaide CBD. The Property collects car parking revenue which is offset by running expenses which include a management fee to Secure Parking to manage and operate the car park. The current management agreement expires in May 2022, and the Manager intends to renew the agreement or establish a new long-term lease to secure certainty of income for investors. The Property is being acquired for $55M, with settlement expected in November – December 2020.

The Fund has an initial term of five years with the ability to extend by one-year (at the Manager's discretion) and a further one-year with unitholder approval. The Manager is targeting initial distributions of 7.0% p.a., increasing to 8.5% p.a. in year five, with average distributions forecast to be 7.5% across the initial five-year term.

The Property will be indirectly owned by the Trust via a series of 100% owned sub-trusts. The sub-trusts were established as part of an amalgamation of the Property and lease agreements with the neighbouring retail complex (Rundle Place) and office building (80 Grenfell St). Following the acquisition of the Property, each of the properties will be owned by separate entities. The Manager intends to simplify the structure to remove the head lease agreement (held in Rundle Car Park Leasing Pty Ltd) to allow a direct lease arrangement through the Property Trust.

Figure 1: Fund structure



Source: Fortius

Fund Strategy

The Manager has identified the Property as one of Adelaide's most strategically located car parks, providing direct access to Rundle Mall, as well as the CBD office workspace. As such, the Trust aims to provide a secure income stream to investors, supported by favourable long-term economic conditions such as employment growth, rising dependency on car usage and increased infrastructure developments within the Adelaide CBD.

The Manager is looking towards implementing several strategies to unlock further value and drive underlying income. These include:

- The stabilisation of income through the COVID-19 period and beyond.
- The installation of new efficient car park equipment
- Extending car park trading hours to 24 hours to improve operating income
- The creation of additional revenue streams such as a car wash and digital signage
- Securing a new long-term lease agreement by tendering the current car park management agreement
- Investigating potential development opportunities, including DA approval to increase the value of the Property.

Management Agreement with Secure Parking

The Property currently operates as a car park under a management agreement with Secure Parking under a 7-year contract expiring in May 2022. The Management Agreement requires Secure Parking to manage the day to day operations of the car park. In return, Secure Parking will be entitled to be reimbursed for: 1) the costs of operating the car park, plus 2) a base fee amount, currently $39,914 p.a., plus 3) a share of the operating profit once certain thresholds and highwater marks are achieved.

This effectively means that the Trust will earn an operating profit from the car park. The operating profit consists of the car parking revenue, less expenses which include property costs and the costs incurred under the management agreement, less interest costs.

The Manager intends to propose a new structure whereby the car park operator will assume the operating business. The car park operator will be able to earn all the operating profit of the car park business in return for establishing a new long-term lease at the Property.

Sources & Application of funds

The Information Memorandum and revised Information Memorandum sets out the sources and application of funds under the terms of the Offer.

Figure 2: Sources and Application of Funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	30.6	55.7%	54.5%
Bank debt	25.6	46.5%	45.5%
Total sources of funds	**56.2**	**102.2%**	**100.0%**
Application of funds			
Purchase price	55.0	100.0%	97.8%
Acquisition Costs (Stamp Duty etc.)	-	-	-
Debt & Fund Establishment Costs	0.4	0.7%	0.7%
Managers' Fee	0.8	1.5%	1.5%
Working Capital	-	-	-
Total application of funds	**56.2**	**102.2%**	**100.0%**

Source: Fortius

Liquidity / exit strategy

The initial term of the Trust is five years to December 2025. The Trust may be extended by one year to December 2026 (at the Manager's discretion) and a further one year to December 2027 (with Unitholder approval via a special resolution).

Investors should be willing to remain invested for a minimum of five years, with the potential for this to reach seven years if the 1+1 year option to extend the Trust is exercised by the Manager and passed by the required number of votes.

Investors may not withdraw their investment during the term of the Trust, and there is no secondary market for units to be traded. However, units may be sold and transferred to a third party with the approval of the Investment Manager. As such, an investment in the Trust must be seen as an illiquid investment.

Debt Facility & Metrics

The Manager has received indicative terms from a major Australian bank for an initial three-year $27.5M debt facility, with an initial draw down of $25.6M expected to fund the acquisition of the Property. Core Property has reviewed the indicative debt metrics and notes the acquisition of the Property is subject to finalisation of debt terms.

- The initial Loan to Valuation Ratio (LVR) is expected to be 46.5%. Based on an expected LVR covenant of 55.0%, Core Property calculates the value of the Property must fall by 15.5% for the LVR covenant to be breached.
- The initial Interest Coverage Ratio (ICR) is expected to be 4.6x. Based on an expected ICR covenant of 2.75x, Core Property calculates the rental income must fall by 40.4% for this covenant to be breached.

Investors should be aware that the debt will need to be extended or replaced, in order to cover the full Trust term and any change in the cost of debt may impact investor returns.

Figure 3: Debt Metrics - Indicative

Details	Metric
Bank	To be confirmed on settlement, expected December 2020
Security	First ranking mortgage
Initial Drawn Debt / Debt Facility Limit	$25.6M / $27.5M
Loan Period	3 years
% Fixed/Hedged	To be confirmed on settlement
All-in cost of Debt	2.20% (forecast, initial)
Initial LVR / Peak LVR/ LVR Covenant	46.5% / 47.4% / 55.0% (expected)
Initial interest covered ratio / Lowest ICR / ICR covenant	4.6x / 4.0x / 2.75x (expected)
Amount by which valuation will have to fall to breach LVR covenant	15.5% (based on expected LVR covenant)
Decrease in income to breach ICR covenant	40.4% (based on expected ICR covenant)

Source: Fortius, Core Property

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be at the low end of what we have typically seen in the market. A summary of the fees is provided below.

Figure 4: Summary of Fees charged

Fee Type	Fee Charged	Core Property Comment
Entry Fee:	Nil	
Exit Fee:	Nil	
Acquisition Fee:	1.50% of the purchase price of the Property.	Core Property considers the Fee to be in the middle of the industry average of 1.0% - 2.0%.
Disposal Fee:	Nil	The Manager does not charge a Disposal Fee for the sale of the asset. However, the Fund may incur additional selling costs if an external agent is appointed.
Management Fee	Management Fees of 0.50% p.a. of the Gross Asset Value (GAV) of the Property. Admin & Other Expenses estimated at 0.12% of GAV (year 1)	Core Property considers the Fees to be at the low end of what we have typically seen in the industry (0.70% - 1.10% p.a. of GAV).
Performance Fee:	20% of the Fund's outperformance over an 8.0% p.a. internal rate of return.	Core Property considers the Fee to be in line with industry practice.

Source: Fortius, Core Property

All-in fee analysis

Core Property has analysed the fees that accrue to the Manager over the term of the Trust as a percentage of all cash flow generated after deducting interest costs by before management fees and performance fees.

Core Property estimates the Manager is entitled to 8.3% of the total cash flow. Core Property considers the fees to be in line what has been seen in the market for similar products, which are typically around 7% - 9%. In terms of the fees paid to the Manager, Core Property estimates that 31.0% of the estimated fee is paid upfront and the remainder relates to ongoing management fees. 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 – over an estimated five-year period

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:	$0.63
Total cash to investors:	**$1.64**
Acquisition fee:	$0.02
Base management fee:	$0.04
Disposal/Exit fees:	-
Debt arrangement fee:	-
Fees for the RE (excluding disposal/admin):	**$0.06**
Total cash generated by Fund:	**$1.70**
Fees = % of total cash generated (before fees)	8.3%
Up-front fee vs total fees	31.0%

Source: Core Property estimates

The Property

The Property is a multi-deck prime located car park in the heart of the Adelaide CBD with a total site area of 2,416 sqm. Constructed in the early 1960s and refurbished in 1992, it comprises timed parking for 506 parking bays over seven split levels with three loading docks. The car park provides exclusive access to the Rundle Place retail complex, Adelaide's only premium grade shopping centre.

Completed in 2013, Rundle Mall is Adelaide's only premium grade shopping centre, spanning five retail levels which are connected directly to the Property. The Rundle Mall precinct attracts over 400,000 visitors per week, hosts 16 arcades with over 700 retailers and is active 7 days a week.

The Property also connects to the office building at 80 Grenfell Street, via one level.

Historically, the Grenfell Car Park has provided consistently strong income averaging $4.4M p.a. between 2016 – 2019. This has coincided with an average industry increase in revenue of 3.2% p.a., as car travel increasingly becomes the dominant mode of transport in Adelaide. Going forward, the Property is poised to benefit from a number of supportive infrastructure developments within the Adelaide CBD, and long-term employment growth.

Figure 6: 90-100 Grenfell Street, Adelaide SA

Source: Fortius

Property Valuation

An independent valuation has been undertaken by Cushman and Wakefield prior to the acquisition, valuing the Property at $55.0M, in line with the acquisition price.

Figure 7: Valuation Metrics

Grenfell Car Park, 90 – 100 Grenfell Street, Adelaide SA	
Title	Freehold
Acquisition date	November - December 2020 (expected settlement date)
Ownership	100%
Site Area	2,416 sqm
Major Tenants	Secure Parking (under a management agreement)
Weighted Average Lease Expiry	1.4 years (management agreement expiry)
Occupancy	100% (under a management agreement)
Initial net passing income	$3.2M p.a.
Net Market income (fully leased)	$3.3M p.a.
Purchase price	$55.0M
Valuation	$55.0M
Capitalisation Rate	5.75% - 6.00%
Initial passing yield	6.04%
Valuer	Cushman & Wakefield
Valuer's Discount rate	7.25%
Value/Car Space	$108,696 per space
Valuer's unleveraged 10-year IRR	7.45%

Source: Cushman & Wakefield

Car Parking in Adelaide

The Parking Services industry has performed strongly over the past five years, with revenue growing at 3.2% p.a. to $1.8 billion. Revenue is expected to be impacted in 2020 as a result of COVID-19 induced declines in travel and discretionary spending. Over one third of industry revenue is generated from airport parking, which has also been impacted by COVID-19 restrictions. Car parking, especially within the CBD region, will benefit from employment growth as higher proportions of Australians choose to travel to work by car. These will be offset by higher parking rates impacting demand, continued competition from alternative transport services, and increasing petrol prices and traffic.

Within the Adelaide CBD, a number of car parks are currently being re-developed for both commercial office and hotel developments, reducing the available number of car parking space in the near-term and driving demand at the Property. The Adelaide CBD is also set to benefit from several infrastructure developments with the South Australian government dedicating $3.7B on building road infrastructure to create jobs and boost the local economy. This consequently is expected to increase commuter numbers. Key projects earmarked or recently completed in close proximity to the CBD include the Adelaide Airport expansion, South Road Upgrade and the AdeLINK Network. As such, demand for parking spaces is expected to remain strong with developments to the CBD and Rundle Mall precinct, in accordance with a steady increase in workers and consumers undertaking leisure activities within the area.

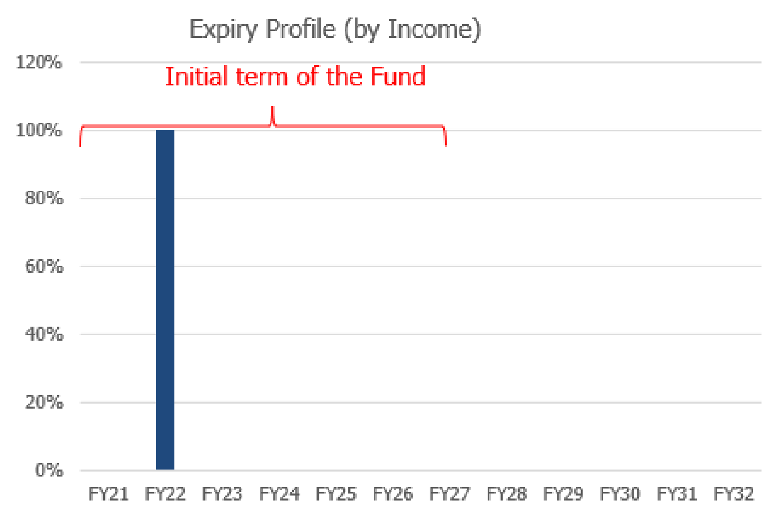
Further, Adelaide employment growth projections provided by Deloitte (Deloitte Access Economics Adelaide CBD), suggest there is potential for a 50% increase over the current volume of cars leading into the city. This implies that an additional 2,196 car parking spaces will be required on a daily basis over the next three years (an increase of approximately 3.1%). The Adelaide City Council has also noted that the residential population is rising faster than the number of residential parking spaces – driving demand for CBD parking spaces.

Lease, tenant and income

Secure Parking Pty Ltd manages the car park under a management agreement. Secure Parking operates within the parking services industry and is predominantly owned by Japan-based car park operator Park24 Co Ltd. Secure Parking currently operates over 600 facilities across all major Australian capital cities and states (excluding the Northern Territory), as well as New Zealand, Singapore, Malaysia and the United Kingdom. As at February 2020, Secure Parking was estimated to occupy 16.7% of the Australian industry's market share.

Under the terms of the existing management arrangement, Secure Parking is entitled to a base management fee of $39,914 p.a. subject to fixed 3.5% annual increases, reimbursements for operator-controlled costs and a performance fee equivalent to 20% of all upside against the previous year. The current agreement is set to expire in May 2022, at which, the Manager is aiming to renew a management arrangement, or transition into a standard fixed rent lease agreement with Secure Parking.

Figure 8: Property lease expiry (based on management agreement)



Source: Fortius, Core Property

Car Park Performance

The Property has delivered consistently strong income, averaging gross revenue of $4.4M p.a. between 2016 – 2019. This is largely attributable to the Property's strategic location adjoining both Rundle Place and the Adelaide CBD office district. In the same period, net profit achieved a CAGR of approximately 3.0% p.a., growing from $3.7M in 2016 to $4.2M in 2019.

Impact of COVID-19

The outbreak of COVID-19 has impacted operating income since April 2020. The closure of businesses, flexible and remote working arrangements and domestic travel restrictions have all resulted in a decline in demand for parking services. Most consumers using parking services are essential workers, who are predominantly opting for on-street parking, as local councils are withholding from issuing fines during the pandemic. Adding to this, negative consumer sentiment and restrictions on tourism have reduced retail activity at the Rundle Place precinct.

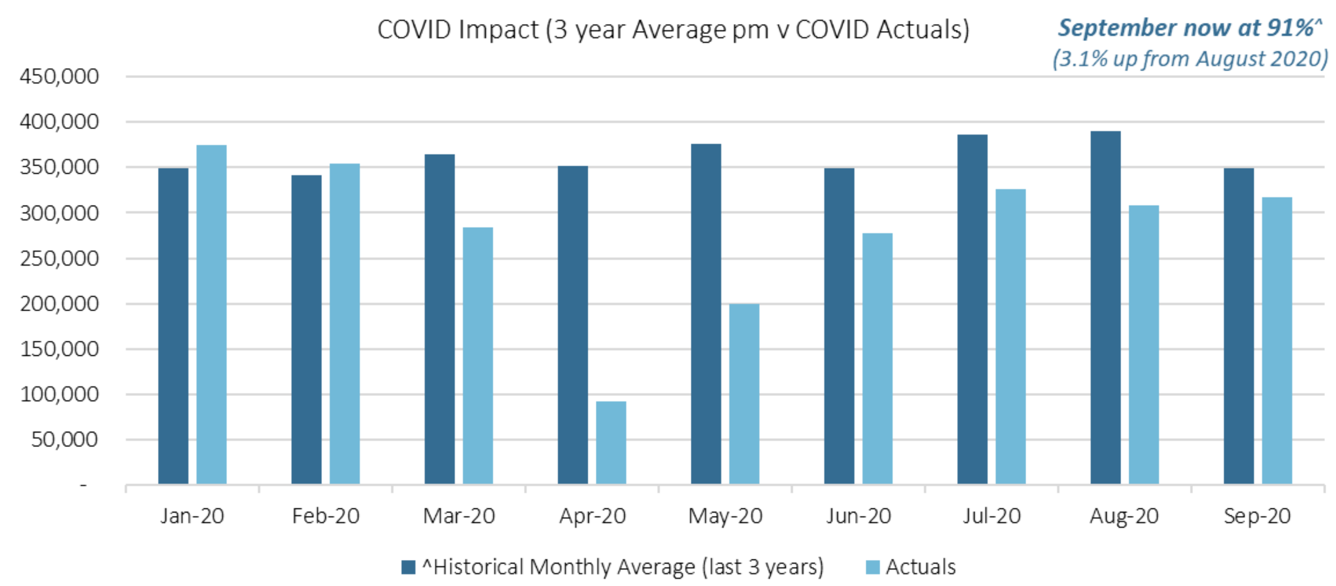
During the COVID-19 period, the Property continued to trade, with significant declines in revenue compared to the prior year.

- During January – March 2020, Operating profit was higher than the prior corresponding periods. January 2020 was +9.0% on January 2019, February 2020 was +7.5% on February 2019 and March 2020 was +3.7% on March 2019.

- Operating profit was heavily impacted by slowing trade at the onset of COVID-19, with April figures falling 78.0% compared to the prior year. Since then, demand has recovered strongly as restrictions have eased, with operating profit for May and June down 46.7% and 24.9% respectively on the prior year. Operating profit over the June 2020 quarter (three months) averaged 50.3% of the prior corresponding June 2019 quarter.
- Improvement has continued faster than expected, with September profit achieving 91% of the average September figures for the past 3 years.

An outline of operating profit for 2020 is provided in the table below.

Figure 9: Performance During COVID-19



Source: Fortius

Car Park Rate Comparison

Core Property has undertaken a sample comparison of car parking rates across six locations in close proximity to the Property. The comparison table shows the Property commands a slight premium for casual parking, due to its premium position in the retail precinct. The longer stay rates (3+, 4+, 5+ hours) and Early Bird rates appear to be reasonably priced, in order to attract regular workers.

The strong price point is reflective of the Property's premium location. Core Property considers this to provide an attractive investment proposition for car park owners at the site.

Figure 10: Sample comparison of car parking rates

Property	**90-100 Grenfell St**	**142 North Terrace**	**172 Gawler Place**	**9-17 Gawler Place**	**18-34 Wyatt St**	**Centrepoint (Rundle & Pultney St)**	**225 North Terrace**
Operator	**Secure**	**Secure**	**Secure**	**UPark**	**UPark**	**Wilson**	**Wilson**
0.5 – 1.0 hour	**$10**	$9	$9	$8	$10	$5	$11
2.0 – 3.0 hours	**$23**	$21	$23	$21	$20	$15	$25
5.0+ Hours	**$29**	$29 (4+ hrs)	$29 (3+ hrs)	$32	$30 (4+ hrs)	$30	$29 (3+ hrs)
Early Bird	**$18**	$16	$20	$15	$19 (pre booked)	$14	$16
Weekend	**$7 Sat/ $10 Sun**	Same as weekday rates	Closed	$8 (Sun, prebooked)	$8	$6 (Sun)	$20 (2.5+ hrs)

Note: Rates are based on the Drive-Up rate and does not take into account any online discount.
Source: Secure, Wilson, Upark websites as at 3 September 2020.

Sales Evidence

The table below shows the comparable sales transaction for car parks over the past four years. The sales evidence suggests the Property is being acquired in the middle of comparable transactions.

Figure 11: Recent transaction evidence

Property	State	Sale Date	Sale Price	Passing Yield	Price per bay
Strata Car Park, 109 Pitt Street, Sydney	NSW	Feb 20	$38.0M	4.28%	$333,333
Queen Elizabeth II, Nedlands	WA	Sep 19	$149.0M	7.90%	$28,028
St Andrews Place Car Park, Spring Hill	QLD	Jul 17	$14.0M	6.77%	$98,592
40 Tank Street, Brisbane	QLD	Aug 18	$93.0M	5.59%	$284,520
42-56 Franklin Street, Adelaide	SA	Oct 16	$30.0M	6.50%	$42,115
17-25 Collie Street, Fremantle	WA	Jul 16	$37.9M	5.50% - 6.00%	$77,698
90-100 Grenfell Street, Adelaide	SA	Mar 16	$46.8M	7.11%	$92,490
45 Charlotte Street, Brisbane	QLD	Feb 16	$45.0M	5.64%	$109,490
Range					**$28,028 - $333,333**
90-100 Grenfell Street, Adelaide	**SA**	**Dec 20 (est.)**	**$55.0M**	**6.04%**	**$108,696**

Source: Cushman & Wakefield

Capex

The Manager has forecast capital expenditure of $1.0M over five years. The amount is above the independent valuer's expectations of $0.8M over 10 years and includes amounts to enhance the quality of the asset with new equipment.

The capex is expected to be funded from additional debt with the LVR forecast to peak at around 47.4%.

Financial Analysis

Core Property has undertaken a financial forecast of the Fund based on the Manager's assumptions as provided in the IM. The key observations are:

- The Manager is forecasting distributions of 7.0% p.a. in the first year, increasing to 7.25% p.a. and 7.50% in the next two years.
- The Manager has allowed for a decline in car park income over the first 12 months of the Trust.
- Forecasts assume that car parking income has resumed to around 95% of pre-COVID-19 levels, by May 2022 and assumes the management agreement continues on this basis. Average growth is assumed at 2.0% p.a. thereafter.
- Forecast assumes debt is undertaken at an initial interest rate of 2.20% p.a. increasing to 2.80% in year four. An additional $0.6M of debt is drawn down in the initial two years to fund capital expenditure to the Property. Total draw down of debt is $1.0M over the five-year term.
- Lower expenses are forecast in Years 2 and 3 as the Manager has forecast a deferral of Management Fees, which are expected to be recovered in later years.

A summary of the Manager's forecasts from the Information Memorandum is presented below.

Figure 12: Profit & Loss Forecast & Balance Sheet

Profit & Loss - Forecast $M	**Year 1**	**Year 2**	**Year 3**
Net Property Income	**$3.2**	**$3.3**	**$3.4**
Trust & Management Expenses	-$0.5	-$0.5	-$0.5
Interest Expense	-$0.6	-$0.6	-$0.7
Total Expenses	**-$1.1**	**-$1.1**	**-$1.2**
Cash Available for Distribution	**$2.1**	**$2.2**	**$2.3**
Distributions	**$2.1**	**$2.2**	**$2.3**
Distributions - cpu	**7.00 cpu**	**7.25 cpu**	**7.50 cpu**
Distribution Yield % (Annualised)	**7.00%**	**7.25%**	**7.50%**

Forecast Balance Sheet – $M	**On acquisition**
Cash	0.0
Investment Properties	55.0
Total Assets	**55.0**
Bank Borrowings	25.6
Other Liabilities	0.0
Total Liabilities	**25.6**
Net Assets	**29.4**
Debt/ Total assets	**46.5%**
NTA per unit	**$0.96**

Source: Fortius, Core Property

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. In this case, the starting NTA of the Trust is $0.96 per unit, with the Trust benefitting from lower acquisition costs including no stamp duty payable on the purchase in South Australia.

Figure 13: Initial NTA

Amount per unit	$ per unit
Issue Price	$1.00
Less:	
Stamp Duty Costs	-
Acquisition Fee	-$0.03
Debt & Fund Establishment costs	-$0.01
Initial NTA per unit	**$0.96**

Source: Core Property

Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

Core Property has estimated the total return from the Fund based on the assumptions provided by the Manager.

Based on the Manager's targeted strategy, Core Property expects the Fund to deliver a five-year Internal Rate of Return (IRR) in the range of 8.2% - 11.9% p.a. The calculations are based on an exit capitalisation rate of between 5.50% - 6.25% with an all-in cost of debt of 2.80% p.a. in year 5 and assumes interest rates move +/- 50bps.

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions) which will result in either a capital gain or loss for investors. Any changes in the market assumptions may impact actual returns.

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

	Cost of debt				
Terminal cap rate	**1.80%**	**2.30%**	**2.80%**	**3.30%**	**3.80%**
5.25%	13.3%	13.0%	12.8%	12.5%	12.3%
5.50%	12.2%	11.9%	11.6%	11.4%	11.1%
5.75% (base)	11.1%	10.8%	**10.6%**	10.3%	10.0%
6.00%	10.1%	9.8%	9.5%	9.2%	8.9%
6.25%	9.1%	8.8%	8.5%	8.2%	7.8%

Source: Core Property

Management & Corporate Governance

Fortius Fund Management was founded in 1991 by Ray Sproats, who remains actively involved in the operations as Executive Director. Fortius has directly transacted, managed, or advised on $4.4B of active assets over 85 transactions across the office, industrial, retail and residential sectors. Fortius was the exclusive direct property fund manager from 1991 to 2005 for HSBC Asset Management (Australia) Limited where its role was to invest primarily in sub $150M core-plus and value-add opportunities throughout Australia.

Core Property has reviewed the management of the Trust and believes that it has the relevant skills and experience to operate the Fund successfully. Each Director has demonstrable property and investment management skills. We summarise the background of the directors and key managers, as provided in the IM.

Figure 15: Board & Management

Name & Role	Experience
Edwin Zemancheff Chairman	Edwin has over 35 years' local and international experience in all aspects of commercial real estate having previously acted for a wide range of major clients on market-leading and cross-border transactions. Prior to joining the Fortius Board, Edwin was an international partner of global law firm, Baker McKenzie. Edwin is an experienced public and private company Non-Executive Director, having held directorships across a diverse range of industries.
Ray Sproats Executive Director, Founder	Ray brings over 48 years' experience in property-related activities including funds management, development, investment banking and corporate finance. Ray is the founder of Fortius and has been involved in every direct property investment since Fortius' inception. Prior to founding Fortius, he held senior positions at Wardley Australia Limited as an Executive Director and Joint Managing Director of the Project Finance and Property Services division.
Katherine Allchin Non-Executive Independent Director	Katherine has had extensive board and executive experience in financial services across both institutional and retail segments. She has been instrumental in building and driving the sales and marketing functions of three start-up financial services firms, which have all developed into successful businesses. She has also held roles as a Managing Director at Barclays Global Investors, a senior executive at Deutsche Bank, Legal and General and Vinva Investment Management. In addition to being on the Fortius Board, Katherine is a shareholder of Vinva Investment Management and a Non-Executive Director of Infrastructure Capital Group Limited.
Sam Sproats Chief Executive Officer and Director - GAICD	Sam is the Chief Executive Officer and a Director of Fortius, having transitioned from the Chief Operating Officer role previously. He has also held many senior executive and leadership roles within Fortius and is active across all parts of the business. Sam provides extensive experience in real estate funds management, asset management, project delivery and execution of all real estate strategies, having been involved in every project since joining in 1998.
Nicholas Sproats Non-Executive Director - GAICD	Nicholas retired as the Chief Executive Officer of Fortius in June 2019 after seven years and now runs his own private investment and advisory firm, NS Capital Partners. During Nicholas' tenure, Fortius tripled its Assets Under Management to approximately $1.3B, significantly expanded its client base and introduced a number of new business lines including Private Syndications, Institutional Separate Accounts, International Real Estate and Real Estate Debt Investment. Nicholas now sits as a Non-Executive Director on the Fortius Board and is involved in various Investment and Governance Committees.
Kevin Lim Chief Financial Officer	Kevin has over 20 years' of experience in the property and funds management industry. He has previously held senior finance roles with Nikko Asset Management, Grosvenor Fund Management, Balmain Commercial and Dexus. Kevin is responsible for the overall finance and operation of the firm, including compliance, reporting, strategic planning, information technology and financing. Kevin is also a Chartered Accountant and a Fellow of the Tax Institute.

Source: Fortius

Compliance and Governance

The Manager has a Compliance Plan which outlines the key processes, policies, systems, and measures to ensure compliance with its AFSL, the Corporations Act, the Constitution, ASIC requirements and applicable laws. The Compliance Plan also addresses the management of resources, dispute resolutions and risk controls to administer the Fund's assets.

Core Property notes the Manager has appointed an external compliance manager, Compliance For Business, to provide an independent assessment of compliance to the Board.

Past Performance

Fortius has directly transacted, managed or advised on $4.4B of active assets over 85 transactions across the office, industrial, retail and residential sectors. Fortius has advised that it has delivered a weighted average IRR of 17.0% over the past 25 years on assets that have been sold or realised.

Investors should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

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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