AUSTRALIAN PROPERTY
OPPORTUNITIES FUND

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QUARTERLY UPDATE 31 MARCH 2015

The Australian Property Opportunities Fund (**APOF I** or **the Fund**) is pleased to provide this update for the March quarter 2015 (**1Q15**).

KEY HIGHLIGHTS

- Announced a distribution of $0.02652 per Unit
- Portfolio occupancy 95%
- The Fund's weighted average lease expiry (WALE) is 5.6 years.

PORTFOLIO UPDATE

ASSET MANAGEMENT

At Lake Innes Village, growth across the centre remains strong with Coles annual sales up 6.5%, helped by the completion of the new car park (pictured right) which has now been in operation for three months. Construction of the new Charles Sturt University campus is underway with courses starting onsite from February 2016. Two new tenants being a café and Chinese takeaway opened for business, with both proving to be popular additions to the tenancy mix.

New car park at Lake Innes Village

At Lynbrook Village Shopping Centre, new leases were executed with a tobacconist and restaurant operator. Early lease renewals were also negotiated with the Indian restaurant and dentist. In addition to strong leasing results, the mall entrance upgrade was completed. This has helped drive sales for the specialty stores and Coles, which has been well received by retailers.

At 390 St Kilda Road, a whole floor tenant vacated on level 19. Based on previous discussions with the tenant this was anticipated. We are now in the process of refurbishing the floor to re-lease this space. Leasing remains a key focus and terms were agreed for a tenant for 200 sqm on level 5 during the quarter. Works continued on the remediation of the façade, with the front elevation now complete and the remaining works due to be finished mid-year. The lift upgrade works commenced in February, and are scheduled to be completed by early August.

At Windsor Riverview, two new ATM licence agreements were executed with Bendigo and Adelaide Bank and Next ATM, while the kebab shop renewed its lease. We continue to remain focused on leasing the remaining vacancies in the centre and are in active discussions with several prospective tenants. Overall, the centre is performing well and we are seeing an upward trend in both sales and foot traffic.

At Noosa Village Shopping Centre, the occupancy decreased marginally to 98% as a result of the beauty clinic vacating. In addition to re-leasing this space, we are looking at options to upgrade the centre, including an expansion of Woolworths (given their strong trading performance), upgrading services and finishes and refining the tenancy mix.

At Oxford Square, occupancy remained stable with work commencing during the quarter to reposition the asset.

Our focus remains on securing tenants for vacant spaces, particularly at 390 St Kilda Road, while managing the refurbishments and capital works across the portfolio. The Manager will look to undertake capital works where they are expected to enhance the yield and add long term value to the properties.

CAPITAL MANAGEMENT

The Fund announced its March distribution of $0.02652 per unit. This distribution is in line with the December distribution and represents a 6.7% annualised distribution yield.

REAL ESTATE MARKET UPDATE

RETAIL

Retail conditions remained broadly unchanged over the quarter with the measured improvement in leasing conditions continuing.

Consumer sentiment has improved slightly since 4Q14 but remains neutral as at March 2015. The RBA's cut to the official cash rate from 2.50% in January to 2.25% in February saw an improvement in conditions. The consensus forecast for a further 0.25% cut in 2Q15 has the potential to further stimulate retail turnover growth.

Total retail turnover growth (year on year) eased slightly from 5.50% in November 2014 to 5.10% in January 2015, but growth remains in line with its 15-year long term average. The key drivers have been non-discretionary sales such as food, household goods, cafes, restaurants and take-away food. Department stores remain challenged with retail spending contracting by 0.50% year on year in January. The weakness was evident across the major department stores and discount department store segment.

While total retail spending has rebounded to a healthier pace over the past 12 months, mixed performance is still evident across individual retailers (particularly domestic) as international retailers continue to be a major focal point for the domestic leasing market.

Transaction volumes for 1Q15 were down approximately 64% from 1Q14 ($1.2 billion) and significantly below than the $2.6 billion in 4Q14.

Yield compression continues to be seen across all the retail sub-sectors in 1Q15. The tightening cycle doesn't appear to be slowing, with low debt costs and strong competition driving yield compression for both core and non-core assets.

OFFICE

The lead indicators for the office sector remained mixed over 1Q15. The February NAB Business Survey highlighted that confidence remains high across corporate Australia. The index is now at its lowest level since before the Federal election in 2013, however actual business conditions were steady with only a minor improvement in the employment sub index.

The improvement in hiring intentions was supported by the February ANZ Job Advertisement Series, which increased by a further 0.9% in February. Job advertisements have now trended higher for 16 successive months and are up 10.2% over the 12 months to February 2015. CommSec's analysis of half-yearly earnings revealed that over 86% of reporting companies recorded a profit, while 58% of those companies improved their profit results. Furthermore, corporate Australia's balance sheet is in good shape and cash reserves remain high.

Demand for office space was positive for Sydney and Melbourne in 1Q15. Rents moved higher in Sydney (+1.3%) and Melbourne (+1.6%) over the quarter. However, the improvement in leasing activity and reduction in vacancy has not flowed through to lower leasing incentives, which remain high.

The Brisbane CBD has approached a point of inflexion with a small increase in office demand for the first time since 3Q12. A sharp reduction in sub-lease availability is a sign that the bulk of the downsizing in the resource and resource-related sector has occurred. Perth recorded negative office demand in 1Q15. While vacancy only recorded a moderate rise in 1Q15, JLL forecasts that building completions in Perth will be the highest since 1982 in 2015. The expectation of higher vacancy has exerted upward pressure on leasing incentives and downward pressure on rents.

Transaction evidence across all office markets was supportive of further yield compression. In 1Q15 JLL has reported that the tighter end of the Sydney CBD equivalent yield range has compressed by 25 basis points to 5.50%.

INDUSTRIAL

The dominant theme for the Australian industrial sector in 1Q15 continues to be the broad tightening in yields and future yield expectations despite the flat to weak rental growth environment.

Prime grade yields broadly firmed this quarter in Sydney, Melbourne and Brisbane, particularly at the upper end of the yield range (reflecting the best quality of assets). Prime yields remained stable in Perth and Adelaide.

Yield tightening continues to be driven by the amount of capital available to purchasers and the growing number of investor groups looking to acquire industrial property. Despite higher transaction turnover last year, there are still limited opportunities for investors to acquire assets on-market and this has resulted in urgency from purchasers in 2015. Investment volume was relatively subdued on a national basis in 1Q15. Total sales volume was the strongest in Sydney, followed by Melbourne.

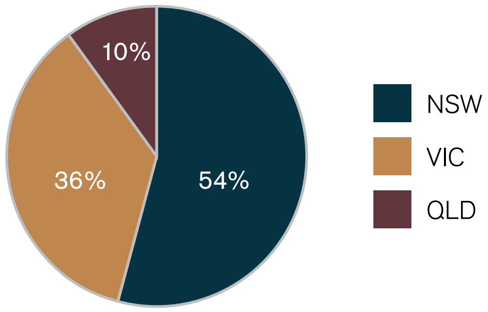
Industrial occupier demand remains broadly below trend. Only approximately 263,700 sqm of major occupier moves were recorded for 1Q15, well below average, with the volume of occupier deals in Sydney notably subdued.

Source: Fort Street Real Estate Capital, JLL

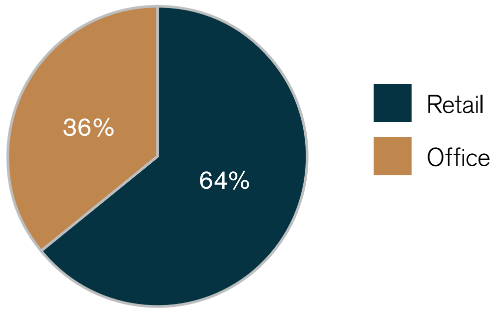
FUND STATISTICS

PORTFOLIO SUMMARY	OCCUPANCY %	VALUE ($M)
Oxford Square, Darlinghurst NSW	97	62.7
390 St Kilda Road, Melbourne VIC	89	56.0
Windsor Riverview Shopping Centre NSW	96	50.0
Lynbrook Village, Lynbrook VIC	98	30.0
Noosa Village, Noosaville QLD	97	25.1
Lake Innes Village, Port Macquarie NSW	98	17.4
Total	**95**	**241.2**

GEOGRAPHY DIVERSIFICATION
(by current value)

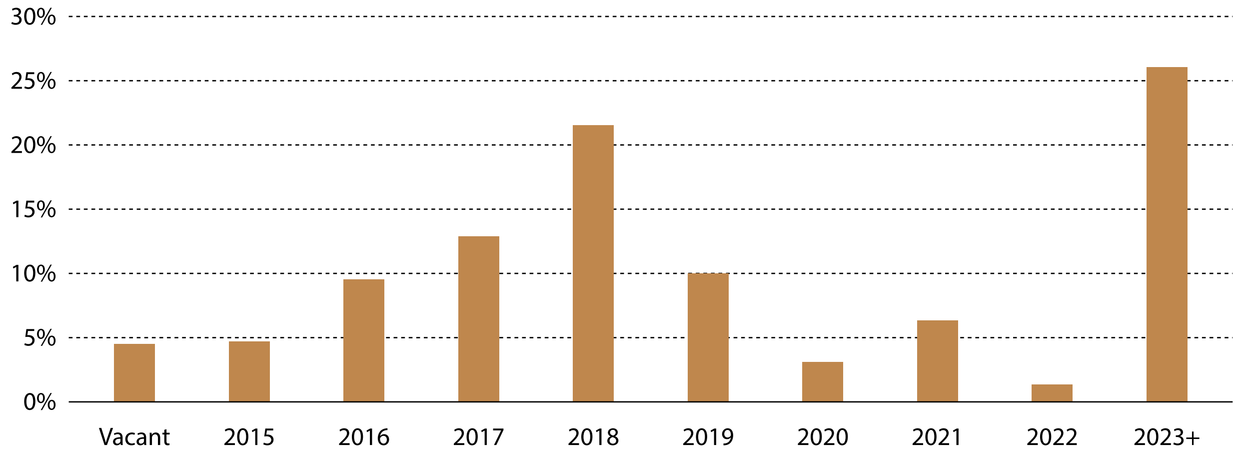


SECTOR DIVERSIFICATION
(by market value)



TOP TENANTS (BY GROSS INCOME)	
Wesfarmers	16%
Study Group	11%
Fitness First	4%
Woolworths	4%
Toll	3%

WEIGHTED AVERAGE LEASE EXPIRY (BY GROSS INCOME)



For more information visit **apof.com.au** or email **info@australianpropertyopportunitiesfund.com.au**

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