AUSTRALIAN PROPERTY
OPPORTUNITIES FUND

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QUARTERLY UPDATE **30 SEPTEMBER 2015**

The Australian Property Opportunities Fund (**APOF I** or **the Fund**) is pleased to provide this update for the September quarter 2015 (**3Q 2015**).

KEY HIGHLIGHTS

- Announced a distribution of $0.0272 per Unit, in line with the June distribution
- Portfolio occupancy increased to 98%, including 100% occupancy at two assets
- The Fund's weighted average lease expiry (WALE) increased to 5.9 years
- Work commenced on the redevelopment of Oxford Square, Darlinghurst.

PORTFOLIO UPDATE

INTRODUCING OXFORD VILLAGE

During the quarter we were pleased to announce plans for the redevelopment and repositioning of Oxford Square. To reflect the strong convenience offer the redeveloped centre will provide to the local community, the centre will be rebranded 'Oxford Village' once the repositioning is completed.

Artist's impression
Oxford Square has been rebranded 'Oxford Village', with a new ALDI supermarket and Riley Street food precinct in the works.

As part of the redevelopment, ALDI will be taking occupation of an expanded 1,430sqm supermarket tenancy on a 12-year lease in what will be their most central Sydney store. ALDI's presence as a discount supermarket has grown in Australia since it opened its first store in 2001 and is now a household name for many shoppers. The addition of ALDI to the centre will offer locals a more convenient shopping experience and this is expected to improve foot traffic and drive sales growth across the centre.

At the same time the centre will be repositioned to create a new food precinct off Riley Street, additional retail tenancies and an upgrade of the finishes, ambience and amenities throughout the mall. The new food precinct will add much needed food retail to the local area which is void of quality and fresh food offerings. This is particularly relevant given the affluent catchment profile which includes a high proportion of young singles and couples.

The repositioning of the asset and introduction of a major supermarket is in line with our acquisition strategy. The redevelopment is forecast to cost approximately $7 million, which includes the expansion of the new ALDI supermarket, the creation of a new food precinct, addition of two extra shops and a full services upgrade which will drive returns for investors. In addition to this, the development will provide increased opportunities to further improve the tenancy mix over the medium term.

ALDI has agreed to a 12-year lease in what will be their most central Sydney store.

As part of the redevelopment, the supermarket tenancy will be expanded and the entrance moved to face Oxford Street. This greatly enhances the visibility of ALDI and will further activate the centre by providing a direct line of sight from Oxford Street, something the previous configuration did not provide and which we expect will further drive foot traffic.

The development works commenced in September and are scheduled to complete in February 2016, with ALDI scheduled to open in December 2015.

ASSET MANAGEMENT

It has been a strong quarter at 390 St Kilda Road, with four leasing deals being completed, taking occupancy to 100%. This is an excellent outcome considering that at acquisition the building was only 88% occupied, with many of the approximately 50 tenants on short-term leases. A large part of this success has been due to the façade repainting and remediation works completed during the quarter, which helped strengthen the assets' position and prominence within the St Kilda Road precinct. Given the continued withdrawal of office space in the precinct for new residential development, the outlook for the property is very positive.

Lynbrook Village Shopping Centre is performing well with occupancy sitting at 100%. Annual sales at Coles have grown 7.3% over the last 12 months. The new burger bar, Suburban Burger, opened for business during the quarter and is performing well with strong sales seen since opening. A new operator has taken over the butcher and completed a refurbishment to improve the customer offering. Looking forward, the key focus will remain on marketing and driving the turnover growth at the centre.

At Windsor Riverview Shopping Centre, a five-year term was agreed with an Asian food operator, providing a complementary addition to the food court. In addition, the mobile phone store commenced trade from a kiosk site never previously occupied. Overall, the centre is continuing to grow with Coles sales up 3.5% during the last year. The focus remains on renewing tenants with upcoming lease expiries and completing leasing up of the remaining vacancies.

Lake Innes Village Shopping Centre continues to outperform, with Coles turnover growth up 11.2% over the past year. A majority of the specialty retailers are also seeing a good uplift in sales. The primary drivers of this growth are the strong residential development underway, proactive marketing and the improved customer offering at the centre. Construction of the university is due to be completed in February 2016, with courses to commence in April 2016. This will provide an additional boost to the centre. Work continues on leasing up the last vacant shop, which will be directly opposite the soon to be completed Charles Sturt University campus.

Noosa Village Shopping Centre had a positive quarter with butcher Gaz Man and the jeweller extending their leases for another five years. Meanwhile, Optus extended for another three years. Terms were also agreed with a fresh fruit and vegetable operator for one of the vacant shops. The new property management and leasing team, Race Property, commenced management of the centre on 1 July 2015 and has been busy undertaking a detailed review to identify income and expense improvement opportunities across the asset. Occupancy is sitting at 96% with a number of parties interested in the remaining space.

CAPITAL MANAGEMENT

The Fund announced a distribution of $0.0272 per Unit, in line with the June distribution and represents a 6.8% annualised distribution yield.

REAL ESTATE MARKET UPDATE

RETAIL

Market wide retail turnover growth has moderated slightly through 2015 but is growing in line with the long-term trend pace nationally. Total retail turnover is growing at 4.6% (year-on-year) as at July. A marginal slowing of growth has been evident for a number of reasons. Firstly, competition between major supermarket chains has resulted in downward pressure on grocery prices (deflation was recorded in Q2) which has dampened turnover growth in the largest retail spending category (Food) to a slightly below trend pace. Secondly, population growth has slowed from previous years to 1.4% p.a. as at March 2015, down from 1.8% two years prior. Finally, a moderation in the rate of retail turnover growth in NSW and Victoria to more sustainable levels (from an 18 year high in the case of NSW has been a contributing factor, with growth slowing to 6.8% and 5.0% respectively.

The Westpac-Melbourne Institute Index of Consumer Sentiment remained volatile in 3Q 2015 reflecting fluctuations in the domestic and international equity markets and the AUD. Sentiment has been variable throughout the year and we don't expect a significant change to retail spending trends to result in the short-term.

JLL continued to record yield compression across all the retail sub-sectors in 3Q 2015. Neighbourhood and bulky goods sub-sectors have continued to show the greatest tightening with approximately 20 basis points (bps) recorded over the quarter for both sub-sectors and 89bps and 80bps respectively over 12 months. CBD retail yields also tightened further in Sydney, Melbourne and Adelaide in 3Q 2015.

OFFICE

Lead indicators for the office sector were mixed over 3Q 2015. The NAB Business Survey (August) showed business confidence retreated in response to the financial markets volatility. However, a divergence in conditions and confidence was recorded with actual business conditions (trend measure) increasing to the highest level since late 2009. The improvement in business conditions is not an Australia-wide story and was largely concentrated in NSW.

Leasing enquiry and activity remains firm in Sydney and Melbourne, while activity in Brisbane and Perth is more closely related to lease expiry. Net absorption figures, the amount occupied at the end of a period minus the amount occupied at the beginning of a period, are positive for Sydney (circa 24,000 sqm) and Melbourne (circa 54,000 sqm). JLL reported in their preliminary overview that the Sydney CBD vacancy rate was flat in 3Q 2015 (circa 7.7%) and vacancy in the Melbourne CBD is likely to move back below 10% in 3Q 2015 with the reduction in vacancy concentrated in secondary grade assets.

Prime equivalent yields compressed at the tighter end of the range across all CBD office markets (ex-Canberra) with Sydney (5.25% to 6.25%), Melbourne (5.25% to 7.00%) and Brisbane (5.75% to 8.00%) all in the 5.00% territory at the tighter end of the range. New pricing benchmarks have stimulated vendor motivation and transaction volumes will be elevated over the latter part of 2015.

INDUSTRIAL

Occupier demand continues to improve in East Coast markets, led by Sydney. Meanwhile, supply conditions are generally subdued and supply is running below average in most markets.

Investment demand remains very buoyant, with increasing sales transaction activity in 3Q 2015 and a number of major asset and portfolio opportunities brought to the market at the end of this quarter as vendors recognise the favourable selling environment at present.

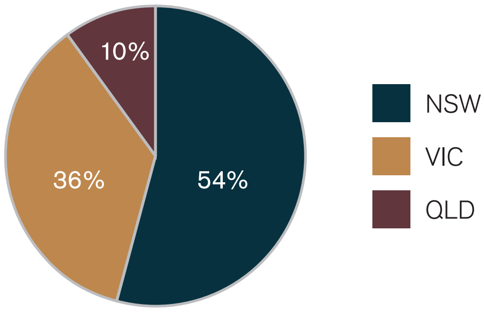
Yields have tightened further this quarter. The spread between prime and secondary grade yields continues to narrow.

FUND STATISTICS

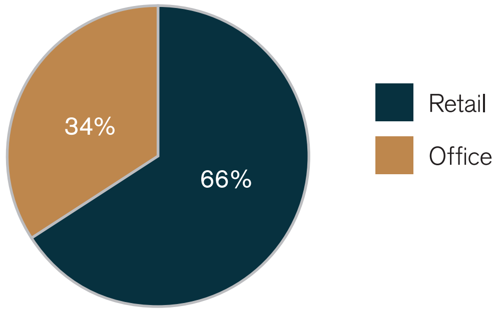
PORTFOLIO SUMMARY	OCCUPANCY %	VALUE ($M)[1]
Oxford Square, Darlinghurst NSW	94	65.6
390 St Kilda Road, Melbourne VIC	100	66.0
Windsor Riverview Shopping Centre NSW	96	51.5
Lynbrook Village, Lynbrook VIC	100	33.0
Noosa Village, Noosaville QLD	96	26.5
Lake Innes Village, Port Macquarie NSW	98	22.1
Total	**98**	**264.7**

1. At 30 June 2015

GEOGRAPHY DIVERSIFICATION
(by current value)

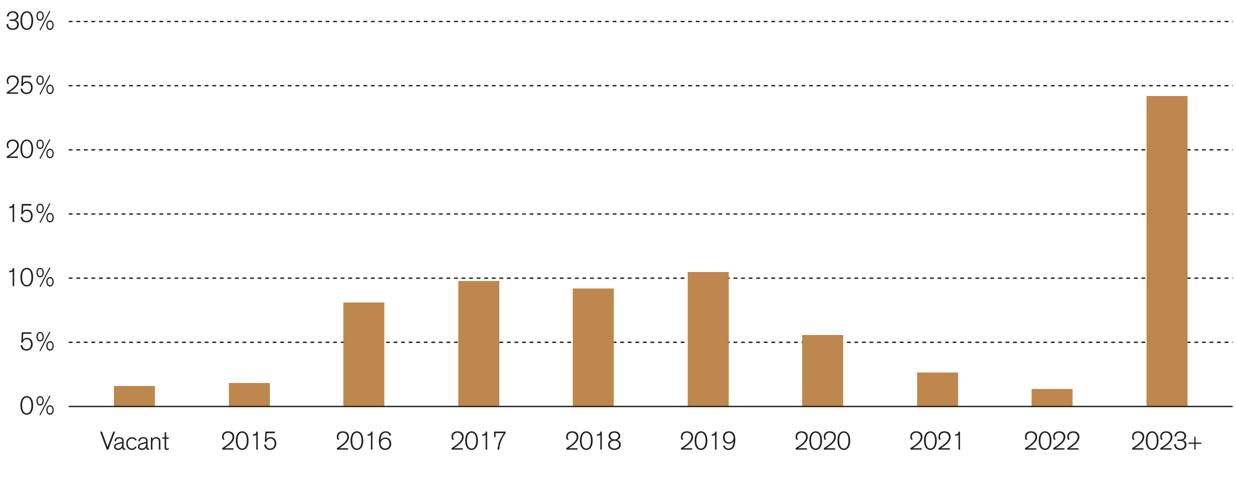


SECTOR DIVERSIFICATION
(by market value)



TOP TENANTS (BY GROSS INCOME)	
Wesfarmers (including Coles and Vintage Cellars)	16%
Study Group Australia	11%
Fitness First Australia	4%
Woolworths	4%
Toll Transport	4%

WEIGHTED AVERAGE LEASE EXPIRY (BY GROSS INCOME)



Source: Fort Street Real Estate Capital, JLL

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

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