AUSTRALIAN PROPERTY OPPORTUNITIES FUND

QUARTERLY UPDATE 30 SEPTEMBER 2014

The Australian Property Opportunities Fund (**APOF** or **the Fund**) is pleased to provide this update for the September quarter 2014 (**3Q 2014**).

KEY HIGHLIGHTS

- Announced a distribution of $0.02652 per Unit, a 2% increase vs. last quarter
- Increased portfolio occupancy to 96%, and the Fund's weighted average lease expiry (WALE) to 5.4 years
- Settled on Windsor Riverview Shopping Centre for $47.5 million, with an option to acquire the adjoining residential properties for $2.5 million
- Fixed the Fund's interest repayments for 5 years at an all-in cost of 5.4%.

PORTFOLIO UPDATE

ASSET MANAGEMENT

During the quarter, portfolio occupancy increased from 95% to 96%. It was a productive leasing quarter with 7 leases signed across all properties, while initiatives aimed at enhancing asset value continued.

At Oxford Square, we have agreed terms with a strong national tenant, increasing occupancy to 99%. This will be a great addition to the centre and complements the current mix of food and service tenants. Only one vacancy remains at Oxford Square, and we continue to market this space as well as renew expiring tenants.

At Lake Innes Village, a dedicated onsite centre manager was appointed, replacing an existing remote centre manager. The decision was motivated by the need to have onsite supervision during the extension of the car park and in anticipation of increased leasing activity. The change has resulted in very strong results, with occupancy increasing from 93% to 98% following 3 vacant shops being leased during the quarter.

At Lynbrook Village Shopping Centre, occupancy remained steady at 97% while work progressed on upgrading the mall entrance with the aim of improving access and increasing patronage. We have also agreed on terms to renew the leases with the incumbent hairdresser and newsagent, for five and seven years respectively.

At 390 St Kilda Road, remediation and repainting of the external façade commenced during the quarter and have been progressing well. In addition, Kone was appointed to complete a full upgrade of the lifts. These works will help reposition the asset and increase the building's presentation and market appeal. Occupancy remained steady at 93%, and we continue to actively market the vacant suites having refurbished the space to better present the current vacancies.

At Windsor Riverview Shopping Centre, we have successfully transitioned ownership and management of the centre. We are encouraged by the strong traffic growth experienced in August and September, up 11% and 9% respectively.

Overall, it has been a strong and productive quarter with future prospects looking positive across all properties.

New café on the ground floor at 390 St Kilda Road, Melbourne VIC

Refurbished office space at 390 St Kilda Road, Melbourne VIC

CAPITAL MANAGEMENT

The Fund announced its September distribution of $0.02652 per Unit. The distribution represents a 2% increase on the June distribution and an annualised distribution yield of 6.6%. The distribution is supported by the cash flows generated by the Fund's five properties, having settled on Windsor Riverview Shopping Centre on 1 August 2014, and retained earnings. These properties generate unlevered initial yields in the range of 6.5% to 8.3% with fully leased yield estimates of 7.1% to 9.6%.

The Windsor Riverview acquisition was funded via the Fund's existing debt facility. We took advantage of the attractive interest rate environment by fixing interest repayments for five years through an interest rate swap, at an all-in rate of only 5.4%.

Following the acquisition of Windsor Riverview Shopping Centre, the Fund's gearing currently sits at approximately 36%.

REAL ESTATE MARKET UPDATE

RETAIL

Retail spending growth has continued to be positive since November 2013, and has accelerated during 2014. Total retail turnover growth has remained between 5-6% in the year to July 2014, representing a notable recovery from the c.3% p.a. between 2009 and 2013. A supportive interest rate environment and positive tailwinds from rising household wealth have aided retail growth, while depreciation in the Australian dollar (AUD) relative to the US dollar (USD) has contributed to a slowdown in online retail spending growth and a domestic retail spending recovery. Despite this, leasing market conditions have yet to show significant improvement, although stronger retail turnover growth should translate into marginally lower vacancy rates and higher rental growth over the next few quarters.

Although there are a number of positive drivers supporting the recovery that have been evident to date, risks still exist in the short term. Consumer confidence remains fragile, particularly in relation to household finances and the economic outlook, with labour markets also softening throughout the year. We continue to have a preference for grocery-anchored shopping centres or those assets with a high proportion of non-discretionary income, which are more resilient to shocks in consumer confidence.

In the investment market, there was growing evidence of yield tightening in 3Q 2014, particularly across sub-regional shopping centres. Jones Lang LaSalle research expects yields to continue to compress, with c.60bps of yield compression to occur across neighbourhood shopping centres by 2018.

OFFICE

Lead indicators for the office sector remain mixed with the most recent NAB Business Survey showing that business confidence remains resilient, supported by positive forward orders and subdued cost pressures. This has been offset by confidence in the economic outlook with labour markets softening throughout the year.

Sydney and Melbourne are expected to be beneficiaries of the transition in the domestic economy away from mining investment to production and consumption of non-mining goods and services. These office markets experienced positive net absorption in the September quarter, driven by activity from technology and technology-related firms. Brisbane and Perth office markets remain weak with vacancy at approximately 16.0% and 13.0% respectively.

With demand for office space remaining relatively subdued across most CBD markets, rental growth is expected to be limited and incentives elevated. This is in contrast to the investment markets which remain strong, with new pricing benchmarks achieved in Sydney and Melbourne over 3Q 2014.

INDUSTRIAL

Industrial sector real estate fundamentals remain relatively subdued. Occupier demand remains below trend, although construction continues to run below long-term averages as a result of weaker demand. Despite this, vacancies have continued to increase throughout 2014.

There has been little movement in net face market rents in most sub-markets. Meanwhile, incentives remain elevated relative to previous years and there has been a moderate increase in average incentive levels in all markets throughout 2014.

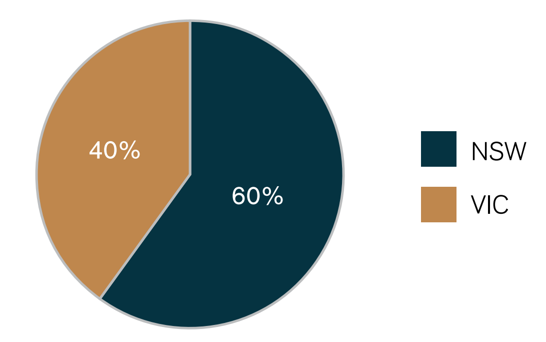
The investment market remains very buoyant, with prime grade industrial logistics and distribution centre assets with long lease terms now trading at the same nominal yields recorded in 2007. Yield tightening has been broad-based, with prime grade industrial assets tightening most at the lower end (best quality) in line with recent transactions.

Source: Jones Lang LaSalle, Fort Street Real Estate Capital

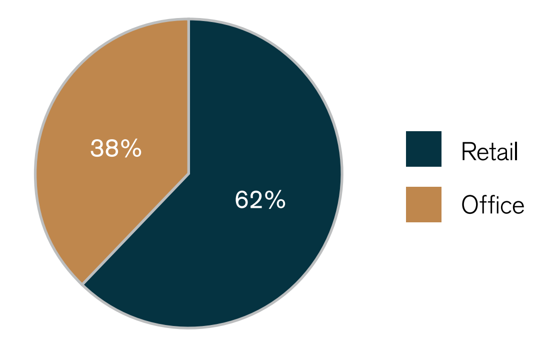
FUND STATISTICS

PORTFOLIO SUMMARY	TOTAL TENANTS	OCCUPANCY %	VALUE ($M)
Oxford Square, Darlinghurst NSW	31	99	62.7
390 St Kilda Road, Melbourne VIC	43	93	56.0
Windsor Riverview Shopping Centre NSW	32	96	47.5
Lynbrook Village, Lynbrook VIC	30	97	30.0
Lake Innes Village, Port Macquarie, NSW	10	98	17.4
Total	**146**	**96**	**213.6**

GEOGRAPHY DIVERSIFICATION
(by current value)

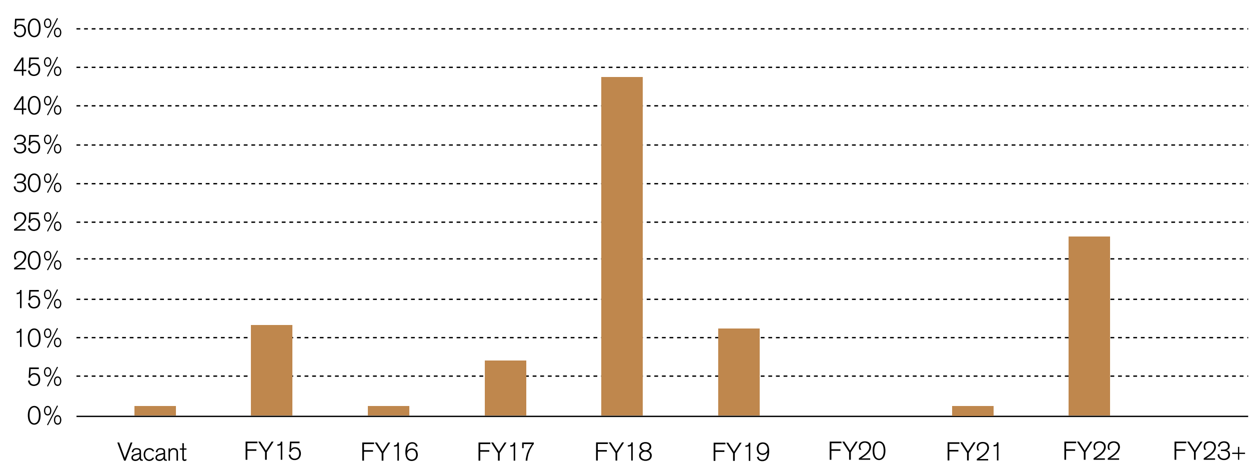


SECTOR DIVERSIFICATION
(by market value)



TOP TENANTS (BY GROSS INCOME)	
Wesfarmers	16%
Study Group	12%
Fitness First	5%
Toll Transport	3%
Quest Serviced Apartments	3%

WEIGHTED AVERAGE LEASE EXPIRY (BY GROSS INCOME)



For more information visit the Fund's website at **apof.com.au**
or email enquiries to **info@australianpropertyopportunitiesfund.com.au.**