

STIRLING

— PROPERTY FUNDS —

STIRLING JUNCTION FAIR SHOPPING CENTRE FUND

Stirling is targeting a total return of **15.7% p.a.** with a Gross Tax Effective¹ return of 22.0% p.a. for investors over a 4 year period, including an average net cash distribution of **9.1% p.a.** Junction Fair Shopping Centre is a dominant neighbourhood shopping centre, anchored by Coles supermarket providing 50% of the Property's income.

Preferred Capital Structure

- Investors will receive **Class A – Preference Units** with:
 - Commencing NTA of \$1.00 per unit
 - 100% of the net distributable income from the Property
 - Preferred net total return up to 12% p.a.
 - Following return of capital to subordinated Class B Unitholders, 85% of the residual proceeds will be allocated to Class A Preference Unitholders

Key Features

- Coles provides 50% of the Centre's income** with a lease to June 2027, plus 2 x 10-year options
- Non-discretionary and service-based** tenants comprise 77% of the Centre's lettable area
- Per capita income** of the Primary Trade Area (PTA) is **18% higher** than the Sydney Metropolitan average
- Newcastle inner suburbs and CBD is undergoing significant growth and government infrastructure investment leading to gentrification and **strong population growth being 14% higher than Sydney Metropolitan** in the Centre's Main Trade Area (MTA)

¹ The Gross Tax Effective is the Gross Equivalent Return the Fund generates for an investor on the highest marginal tax rate

Property Highlights

- Coles anchored dominant neighbourhood shopping centre** which is 99% leased with a 4.6-year WALE (by income)
- Centre generates significant **turnover in excess of \$61m p.a.**
- Property has a site area of 11,250 sqm with 4 street frontages comprising 7,226 sqm of lettable area and a permissible Floor Space Ratio of 2:1. **Opportunity exists for an additional 15,100 sqm of Gross Building Area**
- 231 onsite car spaces** with 202 basement and 29 on-grade
- Weighted average **rental reviews of 3.5% p.a.**, for the non-Coles tenants
- Surrounded by affluent and well-established suburbs** of Merewether Beach, Merewether Heights, Bar Beach and Cooks Hill, which all continue to densify

Resilient Performance during COVID-19

- In March 2020, Junction Fair recorded a 14% year on year increase in monthly turnover, the highest in the past 2 years.
- During April 2020, 90% of tenants by NLA remained open
- By 7 May, 97% of tenants were open with the remaining 2 tenants subject to the Government relaxing restrictions



“ Overall, Junction Fair provides a Coles supermarket anchored shopping centre with a strong retail mix that has been significantly refreshed in recent years. The shopping centre presents strongly and has a number of iconic Newcastle brands that add to the destination appeal. **LOCATION IQ** ”

Investment Strategy

Employing Stirling's extensive retail property expertise over the past 20 years, Stirling has identified the following investment strategy for Junction Fair.

1. Continue discussions with Coles to vary their lease to downsize the supermarket footprint as part of an extended lease term and resetting their turnover threshold. This would release Lettable Area to expand the food catering and medical and health services within the Centre.
2. Using the surplus lettable area surrendered from the Coles lease, increase exposure to the food catering and medical and health retail categories which are amongst the strongest performing retail categories.
3. Increase net operating income via realisation of operating cost savings
4. Progress strategy to unlock 15,100 sqm of unutilised Gross Floor Area

COMPELLING VALUE RATIONALE

The Manager considers that there are solid prospects for the growth in capital value of Junction Fair based on the following:

1. The 7.6% initial yield at which Class A - Preference Unitholders invest into Junction Fair, represents an 18% capital value discount to the average initial yield of comparable transactions referenced in the Cushman & Wakefield Valuation.
2. The 7.6% commencing property yield delivers a 670 basis point premium to the 10-year Australian Government bond which is well in excess of the historical spread between yields on non-discretionary neighbourhood shopping centres and 10-year Australian Government bonds
3. The Manager's investment strategy will enhance the income growth prospects of the Coles lease and increase Junction Fair's net operating income
4. The prime location of Junction Fair, within the most affluent suburbs of Newcastle, coupled with the 15,100 sqm of unutilised Gross Floor Area, provide positive growth drivers for Junction Fair's underlying land value.
5. Newcastle's planned infrastructure investment is expected to increase economic output and expand the Newcastle CBD which will result in increased demand from investors seeking commercial real estate investment opportunities.



INVESTMENT

Effective property purchase price for Class A – Preference Unitholders	\$44.32 million representing a 5.7% discount to the Valuation of \$47.0 million completed by Cushman & Wakefield in March 2020
Commencing NTA – Class A Preference Units	\$1.00 per unit
Investment term	4 years with 2 one year options to extend the investment term
Investment minimum	\$250,000 (or unless agreed with the Manager)
Offer amount	\$24.8 million (Class A – Preference Units) \$2.35 million (Class B – Subordinated Units to be held by the Directors of the Manager. No income entitlement during fund term)
Net distribution (average over 4 year Term)	9.1% p.a. (paid quarterly)
IRR	15.7% p.a. for Class A Preference Units (target)
Financier	Commonwealth Bank of Australia
Facility Amount	\$24.0 million
Amount drawn	\$23.0 million
Commencing LVR	49%
LVR covenant	60%
Fees	Annual Fund Manager Fee of 0.53% p.a. No other fees.

APPLICATION TO INVEST

Applications can only be made by completing the Application Form within the Information Memorandum for the Fund.

THE MANAGER

Stirling comprises a team of business executives with proven experience, at senior levels, in all forms of commercial and residential property, finance and town planning professions. Stirling draws on the combination of funds management skills and success from former Centuria Property Funds, Bankminster and M & G Real Estate executives together with the outstanding residential property development achievements of the Legacy Property team.

NET SALE PROCEEDS DISTRIBUTION WATERFALL

1st	Class A – Preference Units	\$24.8 million (original Capital)
2nd	Class A – Preference Units	12% p.a. Preferred Total Return
3rd	Class B – Subordinated Units	\$2.35 million (original Capital of Stirling Directors)
4th	Class A – 85% Class B – 15%	Residual proceeds allocation

“ The main trade area population is characterised by an Australian born, affluent population who would have a strong affinity with local retail facilities near their homes

LOCATION IQ



CONTACT DETAILS

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