



# BROOKFIELD PRIME PROPERTY FUND

ARSN 110 096 663

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## Interim Report 2016

Responsible Entity  
**Brookfield Capital  
Management Limited**  
ACN 094 936 866  
AFSL 223809

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# Message from the Chairman

On behalf of the Board of Brookfield Capital Management Limited (BCML), enclosed is the Brookfield Prime Property Fund (Fund) interim financial results for the six month period to 31 December 2015.

During the period, the Fund took advantage of demand in the Melbourne property market to sell its 25% interest in Southern Cross East Tower and 50% interest in Southern Cross West Tower for prices well above book value.

This enabled the Fund to pay a special distribution to investors of \$2.50 per unit or 35% of the Fund's 30 June 2015 net asset value (NAV), partially repay its senior debt facility and repay in full its subordinated debt facility.

## FINANCIAL RESULTS

The Fund reported a net profit of \$111.1 million for the period, compared to a net profit of \$3.4 million for the same period last year. The increase was largely due to the gain from the sale of the Fund's interests in Southern Cross East Tower and Southern Cross West Tower.

Key financial results as at 31 December 2015 include:

- net assets of \$345.9 million (30 June 2015: \$352.9 million);
- net assets per unit of \$7.06 per unit (30 June 2015: \$7.20);
- cash and cash equivalents of \$76.9 million (30 June 2015: \$17.1 million);
- portfolio value of \$622.5 million (30 June 2015: \$950.2 million or \$615.0 million excluding Southern Cross East Tower and Southern Cross West Tower); and
- loan (total debt) to value ratio of 51% (30 June 2015: 60%).

Increases in total revenue and other income of \$145.3 million (31 December 2014: \$37.0 million) and earnings per unit of \$2.27 (31 December 2014: 6.88 cents) were largely attributed to gains from the property sales.

## PROPERTY PORTFOLIO

As at 31 December 2015 three properties remain in the portfolio. All three properties were externally valued as at 31 December 2015, resulting in an increase in value of 1.2% from \$615.0 million to \$622.5 million. Occupancy for the three remaining properties was 92% (30 June 2015: 92%) and weighted average lease expiry (WALE) by ownership and income was 3.4 years (30 June 2015: 4.0 years).

## DEBT

During the period, the full balance of Brookfield's subordinated debt facility of \$60.3 million was repaid and the senior bank debt facility was partially repaid by \$201.1 million. As at 31 December 2015, the senior debt facility balance was \$317.5 million.

BCML is in discussions with senior lenders to amend the existing facility. If agreed, it is proposed to lower the senior debt facility and to have the capacity to re-draw on the facility in future years to part fund capital expenditure requirements should BCML consider that to be appropriate at the time.

BCML will advise further if and when amendments to the senior debt facility have been agreed.

## OUTLOOK AND CAPITAL MANAGEMENT

BCML presently intends to retain the remaining properties in Sydney and Perth. These properties have current or short term leasing risk and capital expenditure requirements and BCML is of the view that further value can be added through re-leasing and maximising operating performance. BCML will continue to re-assess the properties and opportunities for the Fund.

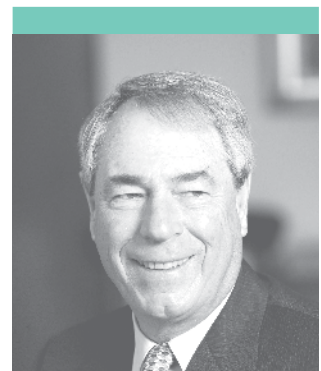
Capital expenditure for the properties will be met from cash reserves, cash drawn from the debt facility and ongoing operating cashflow.

BCML believes that this strategy should facilitate an increase in distributions above recent levels. Distributions will be subject to amending the existing senior debt facility, the performance of the properties and market conditions. BCML will periodically assess potential distribution levels and advise unitholders accordingly.

On behalf of the Board, thank you for your ongoing support.



F. Allan McDonald,  
Independent Chairman



# Half Year in Review

Brookfield Capital Management Limited (BCML), the Responsible Entity of Brookfield Prime Property Fund (Fund) provides a review of the half year ended 31 December 2015.

## MOVEMENT IN NET ASSETS

Underlying net assets of the Fund was \$7.06 per unit at 31 December 2015 compared to \$7.20 per unit at 30 June 2015.

## EARNINGS

Net profit for the current period was \$111.1 million (31 December 2014: \$3.4 million) and reflects the gain on sale of the Fund's 25% share in Southern Cross East Tower and 50% share in Southern Cross West Tower.

## DISTRIBUTIONS

During the period, the Fund paid \$123.6 million in distributions including a cash distribution of \$122.6 million or \$2.50 per unit from net sale proceeds paid on 30 December 2015.

## PROPERTY PORTFOLIO

As at 31 December 2015, three properties remain in the Fund's portfolio. All three properties were externally valued at 31 December 2015 resulting in an increase in portfolio value from 30 June 2015 of 1.2%.

In arriving at an opinion of value, the external valuations considered both the discounted cash flow (DCF) approach and capitalisation analysis. The DCF approach discounts the property's forecast net cash flow over a ten year investment period at a pre-selected hurdle rate of return. The methodology involves forward projection of a number of assumptions including capitalisation rates, discount rates, future rental rates, rental growth and time required to lease up vacant space.

The capitalisation analysis estimates the net income of the property on a fully leased basis and capitalises the net income in perpetuity at a capitalisation rate that reflects the nature, location and tenancy profile of the property compared to current market investment criteria. Adjustments are then made to the capital value of the property to allow for the costs required to lease existing and upcoming vacant space.

The Fund's property portfolio has benefited from the continued tightening of capitalisation rates for quality properties during the six month period to 31 December 2015. Recent comparable market transactions provide evidence that strong competition for quality properties combined with a low interest rate environment has led to further yield compression for prime assets.

## SUMMARY

PROPERTY	LOCATION	FUND SHARE %	VALUATION TYPE AT 31 DECEMBER 2015	VALUE AT 31 DECEMBER 2015 \$M	VALUE AT 30 JUNE 2015 \$M	% CHANGE 6 MTHS
Ernst & Young Centre and 50 Goulburn Street	Sydney	50	External	292.5	287.0	1.9
American Express House	Sydney	100	External	165.0	158.0	4.4
108 St Georges Terrace	Perth	50	External	165.0	170.0	-2.9
<b>Total</b>				<b>622.5</b>	<b>615.0</b>	<b>1.2</b>

In the six month period from 30 June 2015, portfolio occupancy for the three remaining properties was unchanged at 92%. The portfolio's vacancy rate is attributed to the 24% of vacant space at 108 St Georges Terrace, Perth.

The portfolio weighted average lease expiry (by ownership and income) for the three remaining properties declined from 4.0 to 3.4 years and reflects upcoming major lease expiries at the Ernst & Young Centre in December 2016 and American Express House in December 2018.

#### Ernst & Young Centre and 50 Goulburn Street, Sydney

During the period, the Ernst & Young Centre and 50 Goulburn Street properties recorded an increase of 1.9% in their combined value. Despite the upcoming risk associated with the major tenant's lease expiry in December 2016, the increase in value is due to continued capitalisation rate compression during the period as demand for quality assets from domestic and offshore capital continues.

Ernst & Young have provided their targeted staged vacate dates in 2016. This will facilitate ongoing discussions with prospective tenants about the early re-leasing of space. Extensive capital expenditure and incentives have been factored into the valuation of the property. The bulk of this expenditure will be incurred over the next three calendar years and will ensure that the property remains competitive in the leasing market.

### During the period, the Fund paid \$123.6 million in distributions.

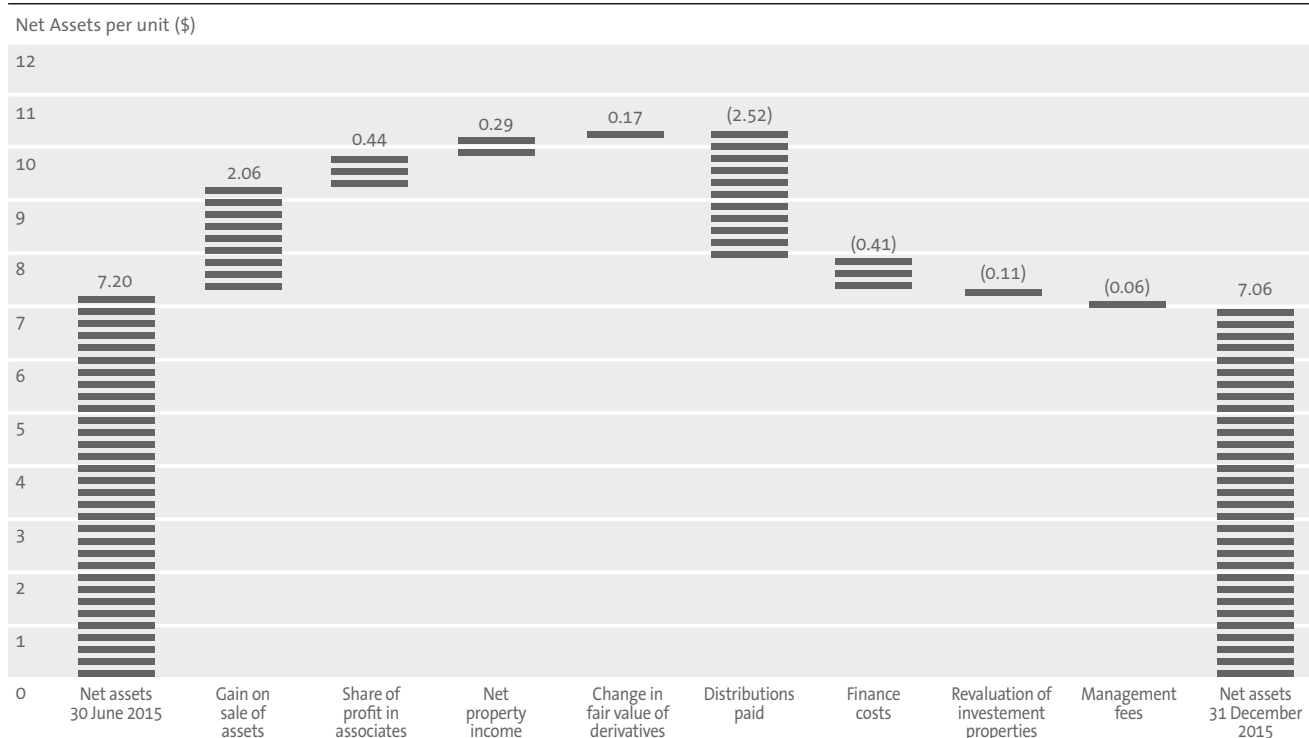
#### American Express House, Sydney

During the period, the value of American Express House increased by 4.4% as a result of continued capitalisation rate compression. The continued influence of overseas investors in the market competing with domestic capital and constrained net supply over the short to medium term has seen the continued increase in capital values for quality stock within the Sydney CBD market. The imminent cashflow risk from the near term expiry of the American Express lease in December 2018 has been captured within the December 2015 valuation of the asset.

#### 108 St Georges Terrace, Perth

The global search for high yielding investments has extended to Perth with yields for Perth CBD properties' with strong lease profiles either stabilising or tightening over the period. Softer market rents and a more difficult leasing market has however applied downward pressure on the capital values for assets with shorter WALEs and/or existing vacancies.

## NET ASSETS RECONCILIATION



# Half Year in Review

108 St Georges Terrace offers investors a desirable WALE of 5.4 years and current passing rents at a rate that exceeds current market rents. The 2.9% decline in value over the period for 108 St Georges Terrace reflects the property's existing leasing risk associated with its current vacant space and upcoming lease expiries.

A comprehensive capital expenditure program and ongoing floor refurbishment will ensure the property remains competitive in a tighter leasing market. This will position the property to take advantage of tenants seeking to upgrade to higher grade space within the Perth CBD core. During the period, proactive leasing initiatives achieved a successful lease of 1,000 square metres of space for a 10 year term.

#### **SUBORDINATED DEBT**

The full balance of the Brookfield subordinated debt facility of \$60.3 million was repaid from net sale proceeds from Southern Cross East Tower and Southern Cross West Tower.

#### **SENIOR DEBT**

During the period, the senior bank debt facility was partially repaid by \$201.1 million. The senior debt facility balance as at 31 December 2015 was \$317.5 million. The senior debt facility is subject to a margin of 1.75% above average bid rate on Reuters BBSY (BBR).

BCML continues discussions with senior lenders to amend the existing facility. If agreed, it is proposed to lower the senior debt facility and have the capacity to re-draw on the facility to fund future capital expenditure requirements should BCML consider that to be appropriate at the time.

#### **SWAPS**

The Fund continues to pay a fixed rate of 5.88% on \$433.4 million under an interest rate swap until July 2016. BCML considered closing out the swap prior to July 2016 but is currently of the view that this is not in the best interests of investors.

#### **FUND SNAPSHOT (as at 31 December 2015)**

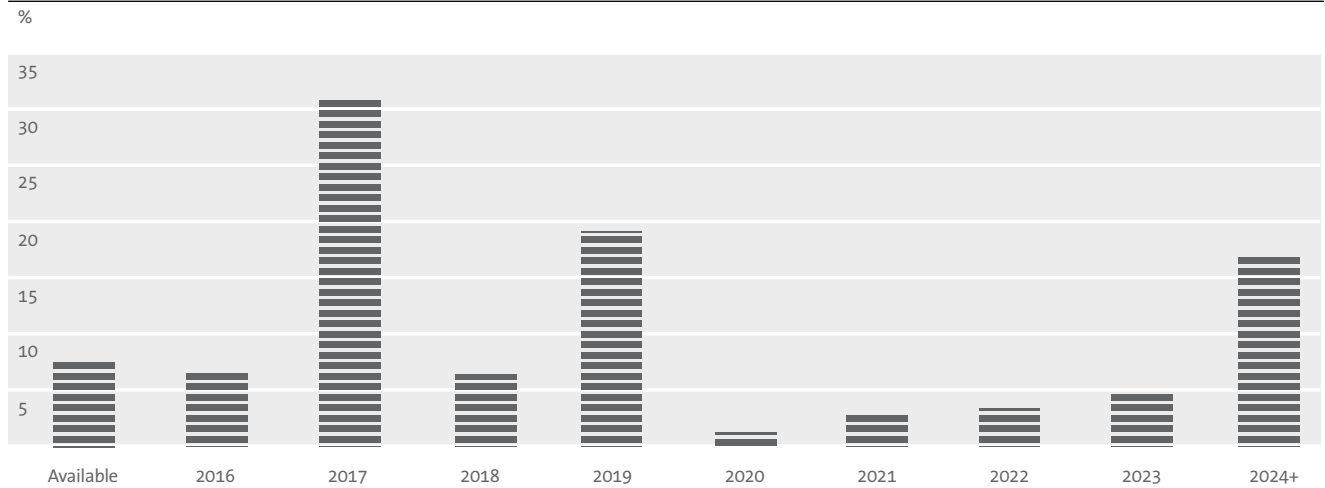
Market capitalisation	\$269.7 million
Funds under management	\$701.0 million
Listing date	15 September 2006
NTA per unit	\$7.06
Portfolio occupancy	92%
Portfolio weighted average lease term by income	3.4
Loan to value ratio	51%
Management fee	0.65% p.a. (excluding GST) of gross asset value
Performance fee	Tier 1–5%, Tier 2–15% (excluding GST) of benchmark <sup>1</sup> outperformance

Note:

<sup>1</sup> UBS Commercial Property Accumulation (200) index.

# Portfolio Analysis

## LEASE EXPIRY PROFILE (by ownership and income)



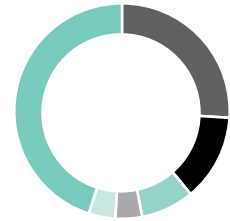
## GEOGRAPHIC ALLOCATION (by value)

- 73% New South Wales
- 27% Western Australia

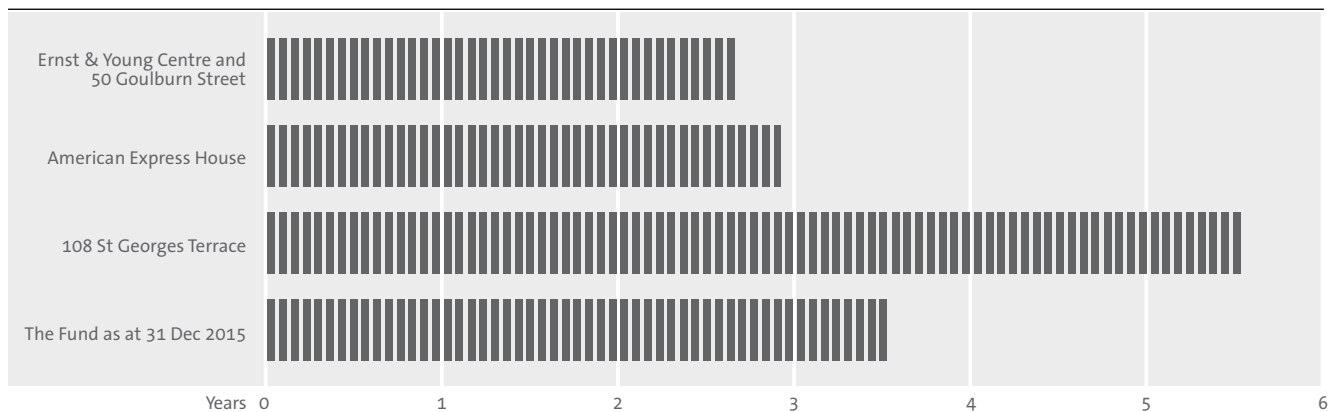


## TENANCY MIX (by income)

- 26% Ernst & Young
- 13% American Express
- 8% South 32
- 4% Link Market Services
- 4% Tabcorp
- 45% Other



## WEIGHTED AVERAGE LEASE EXPIRY PROFILE (by ownership and income)



# Property Analysis

## PROPERTY DESCRIPTION

Ernst & Young Centre is a landmark commercial office tower within the southern periphery of the midtown precinct of the Sydney CBD. The property comprises a substantial lobby with two retail areas and 36 upper levels of office accommodation incorporating low, mid, high and sky rise. Surrounding the property is World Square Shopping Centre and public transport facilities.

50 Goulburn Street is an A-grade commercial building situated on the corner of George Street and Goulburn Street, incorporating ground floor, four levels of office accommodation, a small rooftop terrace and car parking for 28 vehicles. The property's services are integrated with the Ernst & Young Centre.

## KEY FEATURES

Ownership (%)	50
Net lettable area – whole building (sqm)	67,810
Occupancy (%)	100
Weighted average lease expiry (years by income)	2.6
Acquisition date	May 2006

## SUSTAINABILITY CREDENTIALS

NABERS Energy	★★★★☆
NABERS Water	★★★★★
NABERS Indoor Environment Quality	★★★★★

## VALUATION SUMMARY

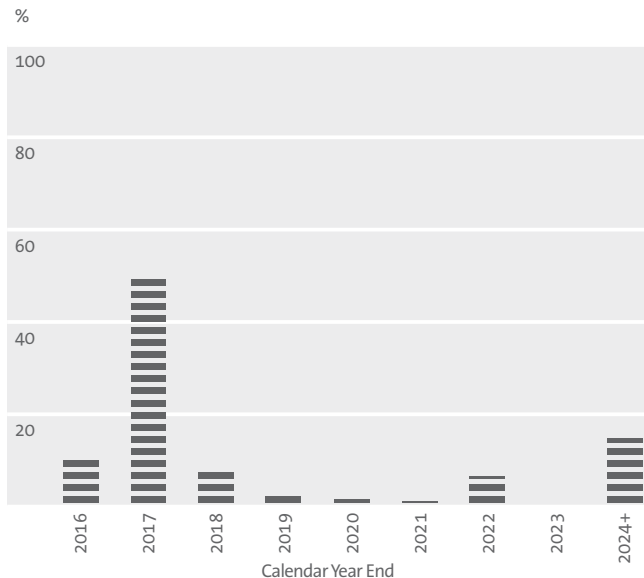
External valuation (50%)	\$292.5 million
External valuation date	31 December 2015

## TENANCY MIX (by income)

- 47% Ernst & Young
- 8% Link Market Services
- 7% Tabcorp
- 5% Austereo
- 5% Parsons Brinckerhoff
- 28% Other



## LEASE EXPIRY (by area)



Note: The Ernst & Young lease expires on 31 December 2016.



## Ernst & Young Centre and 50 Goulburn Street, Sydney



**PROPERTY DESCRIPTION**

American Express House is an A-grade commercial office building completed in late 2007. The property comprises 10 levels of commercial office, fully occupied by American Express, with ground floor retail and underground parking for 69 vehicles.

The property is located within the western corridor precinct of the Sydney CBD with frontage on Shelley Street. American Express House is proximate to Wynyard Railway Station and Bus Interchange, King Street Wharf public ferry terminal, and the retail and restaurants at King Street Wharf.

**KEY FEATURES**

Ownership (%)	100
Net lettable area – whole building (sqm)	14,969
Occupancy (%)	100
Weighted average lease expiry (years by income)	3.0
Acquisition date	December 2007*

\*Date Practical Completion achieved.

**SUSTAINABILITY CREDENTIALS**

NABERS Energy	★★★★★
NABERS Water	★★★★★
NABERS Indoor Environment Quality	★★★★★

**VALUATION SUMMARY**

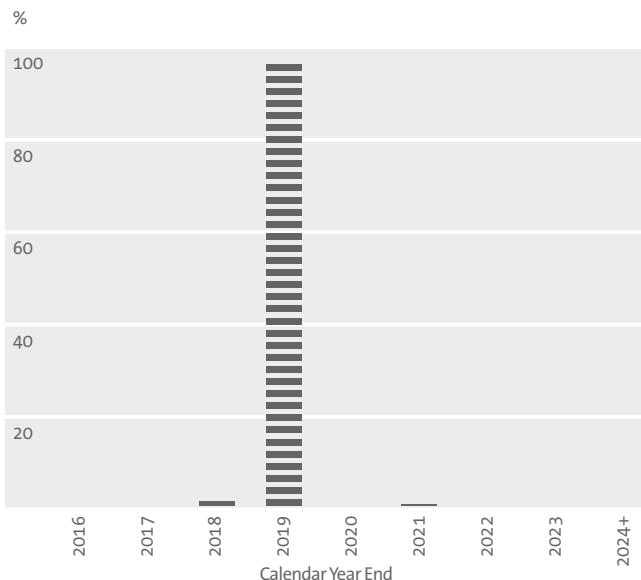
External Valuation (100%)	\$165.0 million
External Valuation date	31 December 2015

**TENANCY MIX (by income)**

- 95% American Express
- 5% Other



**LEASE EXPIRY (by area)**



Note: The American Express lease expires on 31 December 2018.



American Express House, Sydney

# Property Analysis

## PROPERTY DESCRIPTION

108 St Georges Terrace is an A-grade, 52-level commercial office tower and includes the four-level heritage listed Palace building, comprising ground floor banking chamber with associated offices on the upper levels.

The property is prominently located on the corner of St Georges Terrace and William Street in the core of the Perth CBD and has expansive city views from the upper floors.

## KEY FEATURES

Ownership (%)	50
Net lettable area – whole building (sqm)	38,548
Occupancy (%)	75.8
Weighted average lease expiry (years by income)	5.4
Acquisition date	July 2011

## SUSTAINABILITY CREDENTIALS

NABERS Energy	★★★*
NABERS Water	★★

\*The proposed building upgrade is likely to achieve a NABERS Energy Rating of 4.5 Stars to 5.0 Stars.

## VALUATION SUMMARY

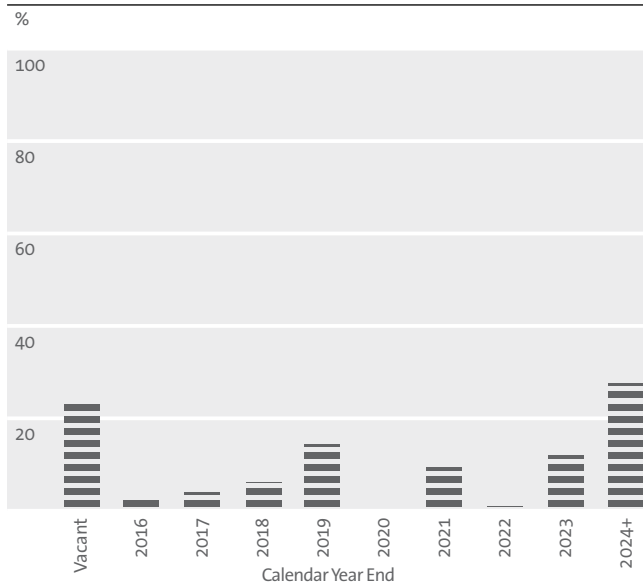
External Valuation (50%)	\$165.0 million
External Valuation date	31 December 2015

## TENANCY MIX (by income)

- 27% South 32
- 11% Quadrant Energy
- 9% Norton Rose
- 53% Other



## LEASE EXPIRY (by area)



## 108 St Georges Terrace, Perth

# Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2015

	CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2015 \$'000	CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2014 \$'000
<b>Revenue and other income</b>		
Property rental income	19,875	20,701
Share of net profit of investments accounted for using the equity method	21,384	16,006
Net gain on sale of assets	100,922	-
Net gain on revaluation of financial derivatives	2,997	-
Interest income	161	337
Other income	3	3
<b>Total revenue and other income</b>	<b>145,342</b>	<b>37,047</b>
<b>Expenses</b>		
Property expenses	5,812	5,564
Finance costs	20,289	20,898
Net loss on revaluation of investment properties	5,151	3,874
Management fees	2,811	3,104
Other expenses	196	235
<b>Total expenses</b>	<b>34,259</b>	<b>33,675</b>
<b>Net profit for the period</b>	<b>111,083</b>	<b>3,372</b>
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss		
Change in cash flow hedge reserve	5,465	4,240
Change in fair value of available for sale financial assets	3	10
<b>Other comprehensive income for the period</b>	<b>5,468</b>	<b>4,250</b>
<b>Total comprehensive income for the period</b>	<b>116,551</b>	<b>7,622</b>
<b>Net profit attributable to ordinary unitholders</b>	<b>111,083</b>	<b>3,372</b>
<b>Total comprehensive income attributable to ordinary unitholders</b>	<b>116,551</b>	<b>7,622</b>
<b>Earnings per unit</b>		
Basic and diluted earnings per ordinary unit (cents)	226.57	6.88

The Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Condensed Consolidated Interim Financial Statements, available at [www.au.brookfield.com](http://www.au.brookfield.com).

# Condensed Consolidated Interim Statement of Financial Position

As at 31 December 2015

	CONSOLIDATED 31 DECEMBER 2015 \$'000	CONSOLIDATED 30 JUNE 2015 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	76,884	17,117
Trade and other receivables	808	3,315
<b>Total current assets</b>	<b>77,692</b>	<b>20,432</b>
<b>Non-current assets</b>		
Investments properties	330,000	482,300
Investments accounted for using the equity method	293,356	463,758
<b>Total non-current assets</b>	<b>623,356</b>	<b>946,058</b>
<b>Total assets</b>	<b>701,048</b>	<b>966,490</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	28,085	24,722
Fair value of financial derivatives	9,500	17,962
<b>Total current liabilities</b>	<b>37,585</b>	<b>42,684</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	317,536	570,876
<b>Total non-current liabilities</b>	<b>317,536</b>	<b>570,876</b>
<b>Total liabilities</b>	<b>355,121</b>	<b>613,560</b>
<b>Net assets</b>	<b>345,927</b>	<b>352,930</b>
<b>Equity</b>		
Units on issue	179,474	302,047
Reserves	5,179	(289)
Undistributed losses	161,274	51,172
<b>Total equity</b>	<b>345,927</b>	<b>352,930</b>

The Condensed Consolidated Interim Statement of Financial Position should be read in conjunction with the Notes to the Condensed Consolidated Interim Financial Statements, available at [www.au.brookfield.com](http://www.au.brookfield.com).

# Corporate Directory

**Responsible Entity**

Brookfield Capital Management Limited  
Level 22  
135 King Street  
Sydney NSW 2000  
Telephone: (02) 9322 2000  
Facsimile: (02) 9322 2001

**Directors**

F. Allan McDonald  
Barbara Ward  
Shane Ross

**Company Secretary**

Neil Olofsson

**Registered Office**

Level 22  
135 King Street  
Sydney NSW 2000  
Telephone: (02) 9322 2000  
Facsimile: (02) 9322 2001

**Custodian**

Brookfield Funds Management Limited  
Level 22  
135 King Street  
Sydney NSW 2000

**Stock Exchange**

The Fund is listed on the Australian  
Securities Exchange (ASX Code: BPA).  
The Home Exchange is Sydney.

**Auditor**

Deloitte Touche Tohmatsu  
Grosvenor Place  
225 George Street  
Sydney NSW 2000  
Telephone: (02) 9322 7000  
Facsimile: (02) 9322 7001

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[www.au.brookfield.com](http://www.au.brookfield.com)