



# BROOKFIELD PRIME PROPERTY FUND

ARSN 110 096 663

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## Interim Report 2015

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 2014.

## FINANCIAL RESULTS

The Fund reported a net profit of \$3.4 million for the period, compared to a net profit of \$11.2 million for the same period last year.

Key financial results as at 31 December 2014 include:

- net assets of \$318.2 million (30 June 2014: \$312.5 million) or \$6.49 per unit (30 June 2014: \$6.37);
- portfolio value of \$904.8 million (30 June 2014: \$894.8 million);
- total revenue and other income of \$37.0 million (31 December 2013: \$42.3 million); and
- earnings per unit of 6.9 cents (31 December 2013: 22.9 cents).

## PROPERTY PORTFOLIO

The property portfolio was internally valued as at 31 December 2014 and increased in value by 1.1% to \$904.8 million. Portfolio occupancy is 93.4% and weighted average lease expiry by ownership and income is 4.9 years.

## DEBT

As at 31 December 2014, the senior debt facility remains at \$520 million and the balance of the subordinated facility has increased to \$51.1 million. The Fund is in compliance with its debt covenants.

## OUTLOOK AND CAPITAL MANAGEMENT

BCML will continue to explore opportunities to enhance value for investors, including continuing to review the Fund's capital structure, its assets and its gearing.

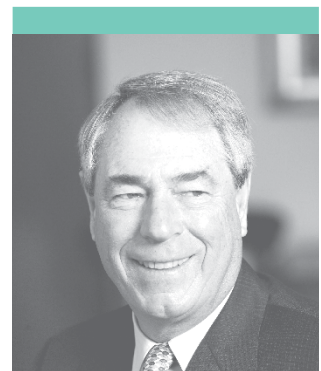
BCML continues to monitor operating cash requirements and the distribution policy.

Performance of the property portfolio will continue to be driven by asset management initiatives to deliver leasing results such as the recently announced conditional lease for approximately 8,300 square metres at 108 St Georges Terrace. These initiatives, together with continued high quality building upgrades, will increase the competitiveness of the properties with a view to maximising returns for investors.

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 2014.

## MOVEMENT IN NET ASSETS

Underlying net assets of the Fund increased from \$6.37 to \$6.49 per unit during the period. This is mainly due to current period net operating income retained in the Fund and a reduction in the interest rate swap liability.

## EARNINGS

Net profit for the current period is \$3.4 million (31 December 2013: \$11.2 million). When measured against the comparable period to 31 December 2013, lower net property income largely reflects the increased vacancies experienced at 108 St Georges Terrace. Overall earnings have been negatively impacted by significant capital expenditure and lease incentives incurred during the period at 108 St Georges Terrace, which are not fully reflected in the increase to the carrying value of the property at 31 December 2014.

## DISTRIBUTIONS

The Fund paid \$2.0 million in distributions or 4 cents per unit for the six months to 31 December 2014.

## PROPERTY PORTFOLIO

The property portfolio was internally valued as at 31 December 2014 resulting in an increase in value of 1.1% compared to the 30 June 2014 value. In arriving at an opinion of value, the discounted cash flow (DCF) approach was adopted. 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.

During the period, portfolio occupancy decreased from 99.3% to 93.4% due to the expiry of the Bankwest lease at 108 St Georges Terrace. The portfolio weighted average lease expiry (by ownership and income) increased from 4.7 years to 4.9 years reflecting new lease deals at the Ernst & Young Centre, 50 Goulburn Street and 108 St Georges Terrace.

Sydney and Melbourne investment markets remain strong with continued demand for properties with good underlying fundamentals such as location, WALE and rent review structures. The leasing market is picking up, however the overall reported declines in vacancy rates and increases in rents negotiated for new lease deals are offset by increased leasing incentives. The vacancy rate in Sydney is likely to be impacted by completion of new office space in Barangaroo from 2016.

## SUMMARY

PROPERTY	LOCATION	FUND SHARE %	VALUATION TYPE AT 31 DECEMBER 2014	VALUE AT 31 DECEMBER 2014 \$M	VALUE AT 30 JUNE 2014 \$M	% CHANGE 6 MTHS
Ernst & Young Centre and 50 Goulburn Street	Sydney	50	Internal	270.0	265.0	1.9
American Express House	Sydney	100	Internal	145.0	145.0	0.0
Southern Cross East Tower	Melbourne	25	Internal	172.3	171.3	0.6
Southern Cross West Tower	Melbourne	50	Internal	149.5	147.5	1.4
108 St Georges Terrace	Perth	50	Internal	168.0	166.0	1.2
<b>Total</b>				<b>904.8</b>	<b>894.8</b>	<b>1.1</b>

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

During the period, the Ernst & Young Centre and 50 Goulburn Street recorded an increase in overall value of 1.9%. This uplift reflects commencement of the TAB lease in January 2015 for 4,800 square metres of space over two and a half floors and Austereo renewing their lease of three floors and roof space for a seven year term. These positive influences on value offset the impending Ernst & Young lease expiry in December 2016.

### 108 St Georges Terrace, Perth

During the period, 108 St Georges Terrace recorded a 1.2% increase in value despite the Perth office market softening as a result of increasing vacancy rates and tenant incentives reducing net market rents.

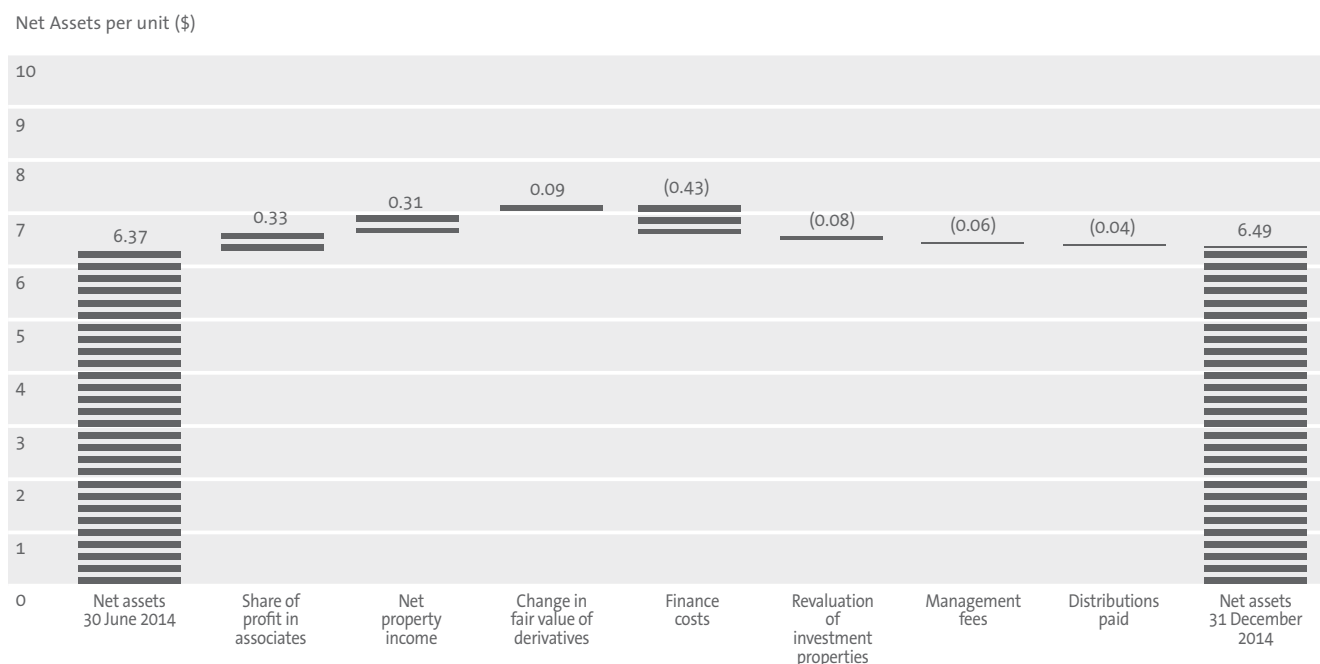
The value uplift is a result of the significant capital expenditure on the property during the period offsetting softening market rental and valuation assumptions. As at 31 December 2014, the lift modernisation and central energy plant upgrade was nearing completion, Development Approval for The Palace refurbishment had been approved and the on-floor refurbishments continue. Once completed, the comprehensive capital program and property's prime CBD location is expected to position the asset well compared to competitor properties of a similar age.

### Underlying net assets of the Fund increased from \$6.37 to \$6.49 per unit during the period.

During the period, a conditional agreement for lease was executed for approximately 8,300 square metres of space with South32, a new company which BHP Billiton plans to create via a demerger. A final decision on the proposed demerger is subject to BHP Billiton Board and shareholder approval with the shareholder vote expected to take place in May 2015. The agreement for lease may also be terminated by BHP Billiton in other circumstances with appropriate compensation being payable.

If the conditions are satisfied, the agreement represents an important step in de-risking part of the vacant space at 108 St Georges Terrace. Execution of the lease is not expected to have a material effect on the value of the property, as the proposed transaction is broadly in line with the re-leasing assumptions already contained within the valuation.

## NET ASSETS RECONCILIATION



# Half Year in Review

## American Express House, Sydney

The value of American Express House remains unchanged during the period. The property is fully leased. In assessing value, the increase in the property's net annual rent during the period has been offset by an increase in capital expenditure and incentive allowance to reflect expiry of the American Express lease in December 2018.

## Southern Cross East and West Towers, Melbourne

During the six months to 31 December 2014, Southern Cross East and West Towers increased in value by 0.6% and 1.4% respectively.

Southern Cross West is anchored by a major tenant, Australia Post, with Southern Cross East anchored by two major tenants, Department of Treasury and Finance and Department of Transport. Each property benefits from annual rental increases. As is the case with American Express House the valuation reflects the capital expenditure and incentive allowance factored in to reflect the risk associated with expiry.

## SENIOR AND SUBORDINATED DEBT

As at 31 December 2014 the senior debt facility remained at \$520 million and the balance of the subordinated facility has increased to \$51.1 million. The senior debt facility is subject to a margin of 1.75% above average bid rate on Reuters BBSY (BBR). The subordinated facility is subject to BBR plus a margin of 3.75% per annum.

## SWAPS

The Fund continues to pay a fixed rate of 5.88% on \$435.0 million under an interest rate swap until July 2016. Any additional amount owing under the senior debt facility remains unhedged at present.

## MARKET BUYBACK

No units were bought back during the period 1 July 2014 to 19 September 2014, being the date when the buy-back period lapsed.

## TAX POSITION OF THE FUND

The Fund has carried forward income tax losses of approximately \$83.5 million as at 30 June 2014. Use of these losses is subject to satisfaction of various tests. The benefit of tax losses is not reflected as an asset in the Fund's balance sheet.

## FUND SNAPSHOT (as at 31 December 2014)

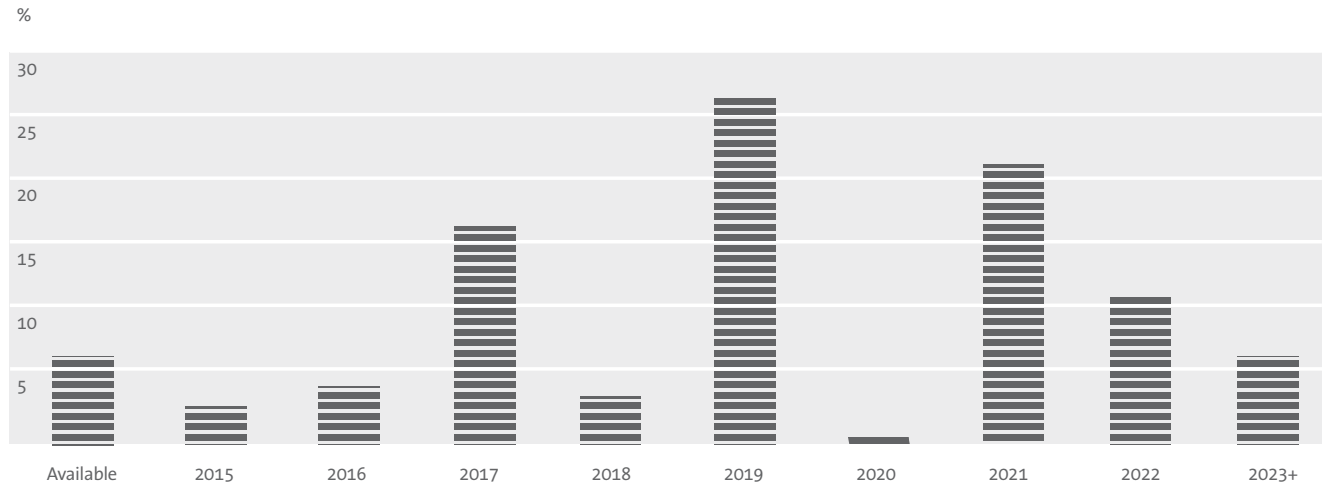
Market capitalisation	\$264.8 million
Funds under management	\$924.4 million
Listing date	15 September 2006
Net Assets per unit	\$6.49
Portfolio occupancy	93.4%
Portfolio weighted average lease term by income	4.9
Loan to value ratio – senior debt only	57.5%
Loan to value ratio – senior and subordinated debt	63.1%
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:

1 UBS Commercial Property Accumulation (200) index.

# Portfolio Analysis

## LEASE EXPIRY PROFILE (by ownership and income)



## GEOGRAPHIC ALLOCATION (by value)

- 46% New South Wales
- 35% Victoria
- 19% Western Australia

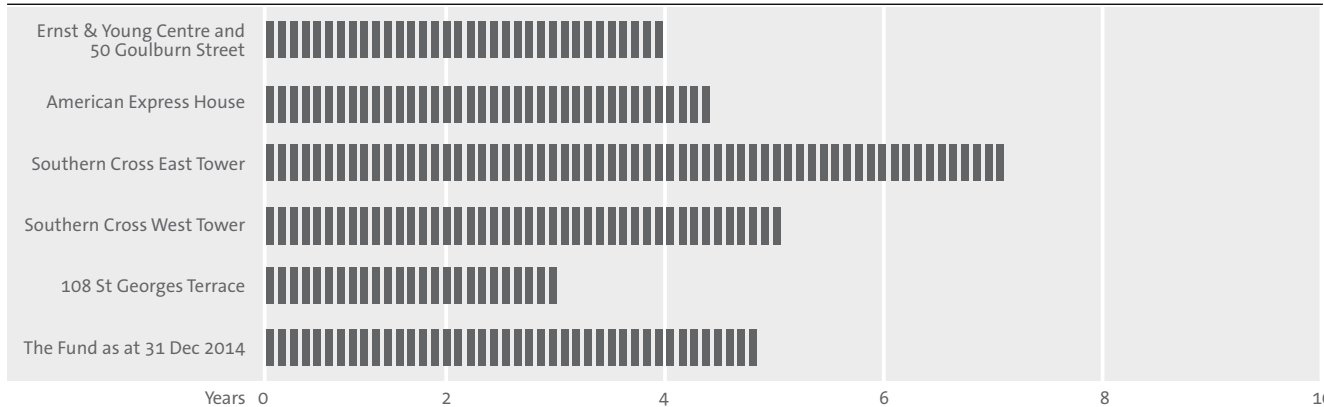


## TENANCY MIX (by income)

- 30% Victorian State Government
- 32% Other
- 15% Ernst & Young
- 16% Australia Post
- 7% American Express



## 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 and the property is serviced with retail and transport facilities in close proximity.

## KEY FEATURES

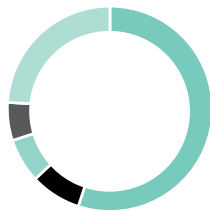
Ownership (%)	50
Net lettable area – whole building (sqm)	67,810
Occupancy (%)	100.0
Weighted average lease expiry (years by ownership and income)	4.0
NABERS Energy rating	4.5 Stars
NABERS Water rating	3.5 Stars
Acquisition date	May 2006
Book value	\$270.0 million

## VALUATION SUMMARY

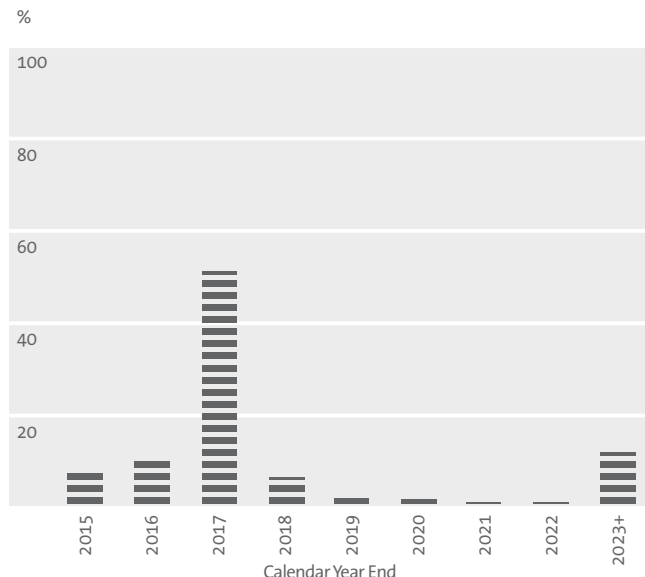
Internal valuation (50%)	\$270.0 million
Internal valuation date	31 December 2014

## TENANCY MIX (by income)

- 52% Ernst & Young
- 8% Link Market Services
- 7% Austereo
- 6% Parsons Brinckerhoff
- 27% Other



## LEASE EXPIRY (by area)



## 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 ownership and income)	4.5
NABERS Energy rating	5.0 Stars
NABERS Water rating	4.0 Stars
Acquisition date	December 2007*
Book value	\$145.0 million

\*Date Practical Completion achieved.

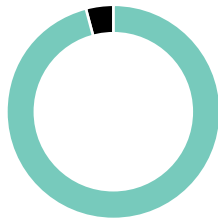


**VALUATION SUMMARY**

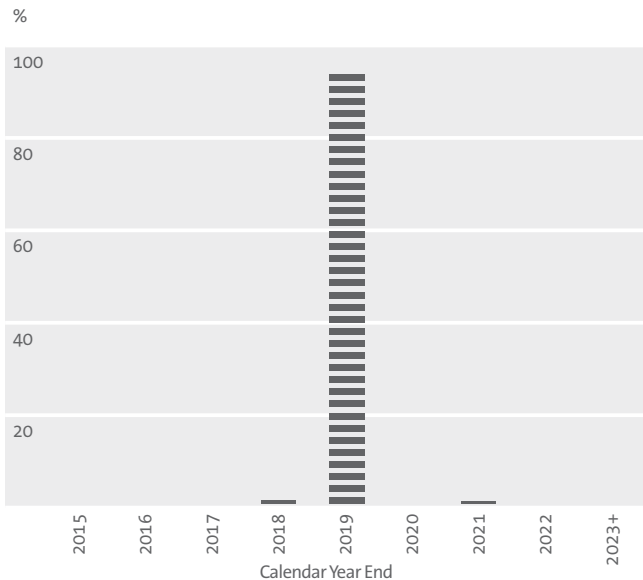
Internal Valuation (100%)	\$145.0 million
Internal Valuation date	31 December 2014

**TENANCY MIX (by income)**

- 97% American Express
- 3% Other



**LEASE EXPIRY (by area)**



American Express House, Sydney

# Property Analysis

## PROPERTY DESCRIPTION

Southern Cross East Tower is a landmark A-grade office building with premium grade services. The building comprises a ground level foyer and retail tenancies, 36 levels of office accommodation and basement parking for 950 vehicles.

The property is located at the eastern end of the Melbourne CBD bordering Exhibition, Bourke and Little Collins Streets. Public transport facilities include tram and bus services and Parliament Railway Station is situated 100 metres to the west.

## KEY FEATURES

Ownership (%)	25
Net lettable area – whole building (sqm)	79,731
Occupancy (%)	100
Weighted average lease expiry (years by ownership and income)	7.0
NABERS Energy rating	4.5 Stars
NABERS Water rating	3.0 Stars
Acquisition date	May 2006
Book value	\$172.3 million

## VALUATION SUMMARY

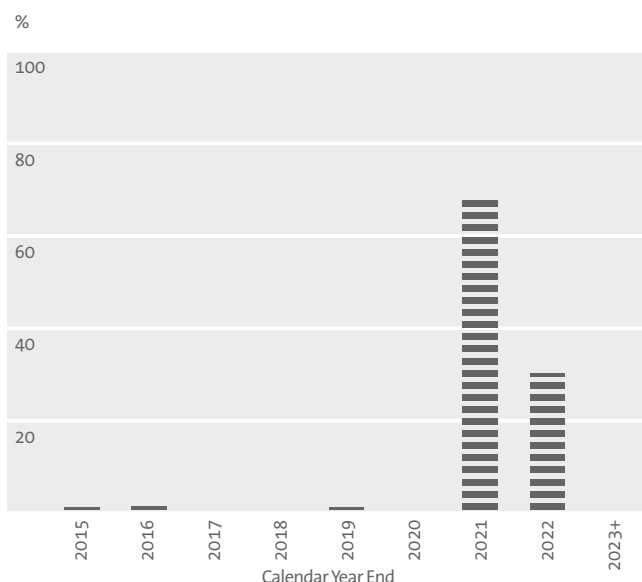
Internal Valuation (25%)	\$172.3 million
Internal Valuation date	31 December 2014

## TENANCY MIX (by income)

- 60% Victorian State Government (DOTF)
- 31% Victorian State Government (DOT)
- 9% Other



## LEASE EXPIRY (by area)



## Southern Cross East Tower, Melbourne

**PROPERTY DESCRIPTION**

Southern Cross West Tower forms part of the Southern Cross landmark development. The A-grade property was completed in 2009 and comprises ground floor retail tenancies, lobby, 20 upper levels of office accommodation and basement parking.

The property is located at the eastern end of the Melbourne CBD, bordering Bourke and Little Collins Streets. Public transport facilities include tram and bus services and Parliament Railway Station is situated 100 metres to the west.

**KEY FEATURES**

Ownership (%)	50
Net lettable area – whole building (sqm)	46,326
Occupancy (%)	100
Weighted average lease expiry (years by ownership and income)	5.3
NABERS Energy rating	4.5 Stars
NABERS Water rating	4.5 Stars
Acquisition date	July 2011
Book value	\$149.5 million

**VALUATION SUMMARY**

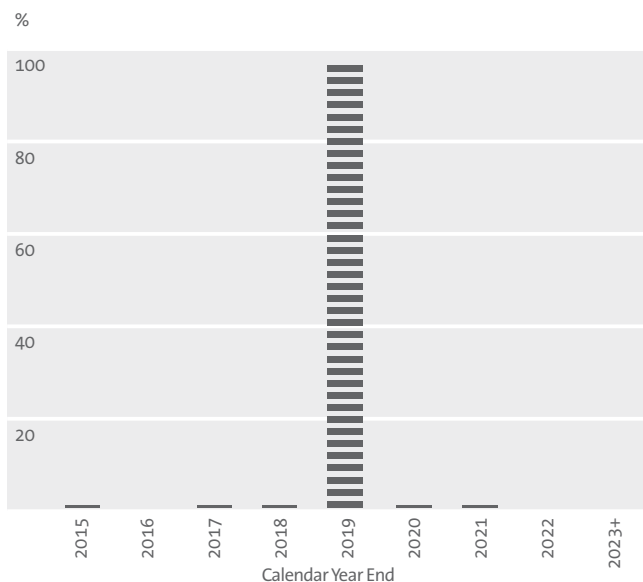
Internal valuation (50%)	\$149.5 million
Internal valuation date	31 December 2014

**TENANCY MIX (by income)**

- 95% Australia Post
- 5% Other



**LEASE EXPIRY (by area)**



**Southern Cross West Tower, Melbourne**

# 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)	38,988
Occupancy (%)	58.2
Weighted average lease expiry (years by ownership and income)	3.4
NABERS Energy rating	0 Stars*
NABERS Water rating	1.5 Stars
Acquisition date	July 2011
Book value	\$168.0 million

\* On completion of the proposed building upgrade, the property is targeting a NABERS Energy Rating of 4.5 Stars to 5.0 Stars.

## VALUATION SUMMARY

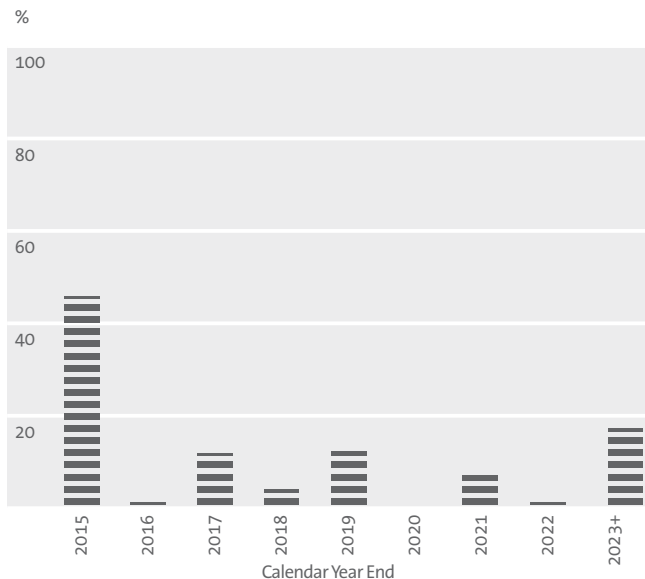
Internal Valuation (50%)	\$168.0 million
Internal Valuation date	31 December 2014

## TENANCY MIX (by income)

- 20% Apache Energy
- 11% Norton Rose Fulbright
- 69% 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 2014

	CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2014 \$'000	CONSOLIDATED HALF YEAR ENDED 31 DECEMBER 2013 \$'000
<b>Revenue and other income</b>		
Property rental income	20,701	22,548
Share of net profit of investments accounted for using the equity method	16,006	16,362
Net gain on revaluation of investment properties	-	3,199
Interest income	337	161
Other income	3	5
<b>Total revenue and other income</b>	<b>37,047</b>	<b>42,275</b>
<b>Expenses</b>		
Property expenses	5,564	5,622
Finance costs	20,898	22,177
Net loss on revaluation of investment properties	3,874	-
Management fees	3,104	3,038
Other expenses	235	200
<b>Total expenses</b>	<b>33,675</b>	<b>31,037</b>
<b>Net profit for the period</b>	<b>3,372</b>	<b>11,238</b>
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss		
Change in cash flow hedge reserve	4,240	5,158
Change in fair value of available for sale financial assets	10	(1)
<b>Other comprehensive income for the period</b>	<b>4,250</b>	<b>5,157</b>
<b>Total comprehensive income for the period</b>	<b>7,622</b>	<b>16,395</b>
<b>Net profit attributable to ordinary unitholders</b>	<b>3,372</b>	<b>11,238</b>
<b>Total comprehensive income attributable to ordinary unitholders</b>	<b>7,622</b>	<b>16,395</b>
<b>Earnings per unit</b>		
Basic and diluted earnings per ordinary unit (cents)	6.88	22.92

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 2014

	CONSOLIDATED 31 DECEMBER 2014 \$'000	CONSOLIDATED 30 JUNE 2014 \$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	23,375	23,585
Trade and other receivables	1,257	1,303
<b>Total current assets</b>	<b>24,632</b>	<b>24,888</b>
<b>Non-current assets</b>		
Investments properties	462,500	458,500
Investments accounted for using the equity method	437,248	433,863
<b>Total non-current assets</b>	<b>899,748</b>	<b>892,363</b>
<b>Total assets</b>	<b>924,380</b>	<b>917,251</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	13,646	9,971
<b>Total current liabilities</b>	<b>13,646</b>	<b>9,971</b>
<b>Non-current liabilities</b>		
Interest bearing liabilities	568,817	566,784
Fair value of financial derivatives	23,756	27,996
<b>Total non-current liabilities</b>	<b>592,573</b>	<b>594,780</b>
<b>Total liabilities</b>	<b>606,219</b>	<b>604,751</b>
<b>Net assets</b>	<b>318,161</b>	<b>312,500</b>
<b>Equity</b>		
Units on issue	302,047	302,047
Reserves	(6,084)	(10,334)
Undistributed losses	22,198	20,787
<b>Total equity</b>	<b>318,161</b>	<b>312,500</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  
Russell Proutt  
Shane Ross (alternate to Russell Proutt)

## **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)