CorVal

27 August 2013

[investor name]
[investor address]
[investor address]

IMPORTANT MEETING MATERIALS ATTACHED

PLEASE READ AND TAKE APPROPRIATE ACTION

CORVAL INDUSTRY HOUSE TRUST
SALE OF PROPERTY AND WIND-UP OF TRUST

Dear Investor,

Please find enclosed some important information with respect to your investment in the CorVal Industry House Trust (**Trust**).

For the reasons outlined in the attached Explanatory Memorandum, the Board of CorVal is recommending unitholders approve an early sale of the sole property asset of the Trust, namely Industry House, located at 10 Binara Street, Canberra (**Property**) for $151.7 million to Brompton Asset Management (Bermuda) Ltd acting as investment manager for AREF Prop Holdings Pty Ltd as trustee of the AREF Property 1 Unit Trust (**Brompton**).

To give effect to the sale, Trust unitholders must pass an ordinary resolution (being no less than 50%, by value, of the unitholders that vote) at a duly convened meeting of unitholders. If passed, it would mean the Property would be sold and the net sale proceeds (after repayment of bank debt and selling costs) would be returned to unitholders and the Trust wound-up.

Based on the Property sale price of $151.7 million, and assuming no claims are successfully made by the purchaser against the Trust for the breach of any sales contract representations and warranties (see later comments on page 8 under "The offer to purchase the Property"), it is estimated unitholders will receive circa $1.10 per unit in the Trust. This amount, combined with the income distributions that have, and will be paid to unitholders up until the Property settlement date, will deliver an estimated annualised total return (income and growth) of 10.9% per annum to unitholders over the term of the Trust.

The largest unitholder in the Trust, being an investment vehicle in which CorVal's largest shareholder, Andrew Roberts, has a beneficial interest has decided to vote in favour of the resolution. This investment vehicle holds 38.2% of the units in the Trust.

Further information with respect to the proposal to sell the Property and formally wind-up the Trust is included in the enclosed meeting materials.

A formal unitholders meeting to consider this matter will be held at 10 am (AEST) on 26 September 2013 at Level 13, 9 Hunter Street, Sydney NSW 2000. Please note there is no requirement for unitholders to attend this meeting unless they would like to do so.

However, if you are unable to attend, then please complete the attached Proxy Form and return it to Boardroom Pty Limited in the enclosed stamped self-addressed envelope.

This is an important matter that directly impacts upon your investment in the Trust. The Board of CorVal therefore strongly encourages you to carefully review and consider the enclosed meeting materials and to vote in favour of the resolution to sell the Property early.

Your vote is important so please either return the completed Proxy Form by no later than 10 am (AEST) on 24 September 2013 or attend the meeting of Unitholders to be held at 10 am (AEST) on 26 September 2013.

Should you have any questions with respect to this matter, please contact either your financial adviser or CorVal on (02) 8203 8400.

Yours sincerely

CorVal Partners Limited

Kevin Neville

Chairman

CorVal

CORVAL INDUSTRY HOUSE TRUST (ARSN 139 802 038)

NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

27 August 2013

CONTENTS

SECTION 1

CORVAL INDUSTRY HOUSE TRUST

ARSN 139 802 038

NOTICE OF MEETING OF UNITHOLDERS

NOTICE IS HEREBY GIVEN by CorVal Partners Limited (**CorVal**) as responsible entity of the CorVal Industry House Trust (**Trust**) that a general meeting of unitholders will be held at:

Date and time of meeting:	**Thursday, 26 September 2013 at 10 am (AEST)**
Place of meeting:	**Level 13, 9 Hunter Street, Sydney**

Agenda:

1. Quorum.
2. Admittance of proxies.
3. To consider the following ordinary resolution:

   *"CorVal Partners Limited (**CorVal**) as the responsible entity of the CorVal Industry House Trust (**Trust**), be authorised to accept an offer of $151.7 million from Brompton Asset Management (Bermuda) Ltd acting in its capacity as Investment Manager for AREF Prop Holdings Pty Ltd as trustee of the AREF Property 1 Unit Trust to acquire Industry House, located at 10 Binara Street, Canberra, being the sole property asset of the Trust, including engaging such experts as it reasonably requires to assist in this process and signing all documents and doing all things reasonably necessary to give effect to the sale."*

4. General business.

Notes:

Quorum and passing resolution

- To pass the ordinary resolution, the quorum required at this meeting is at least 2 unitholders, holding or representing by proxy or attorney at least 5% of all units issued in the Trust.
- The ordinary resolution must be passed by at least 50% (by value) of those unitholders that do vote. The resolution will be decided on a poll and each member will have one vote for each dollar of the value of the units they hold in the Trust.
- If no quorum is present within 30 minutes, the meeting will be adjourned to resume on 26 September 2013 at 11 am (AEST) at the same venue.

Voting exclusion notice

- CorVal will disregard votes cast by a person who is not entitled to vote because of section 253E of the Corporations Act. This section provides that CorVal and its associates are not entitled to vote on a resolution if they have an interest in the resolution, other than as a unitholder.

- However CorVal will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form.

Voting by proxy

- A unitholder entitled to attend this meeting and vote, is entitled to appoint a proxy to attend and vote for the unitholder at the meeting. A proxy need not be a unitholder of the Trust. If the unitholder is entitled to cast 2 or more votes at the meeting, the unitholder may appoint 2 proxies. If a unitholder appoints 2 proxies, the unitholder may specify the proportion or number of votes the proxy is entitled to exercise. If a unitholder appoints 2 proxies and the appointment does not specify the proportion or number of the unitholder's votes, each proxy may exercise half of the votes. A form of the proxy is attached to this notice.

- To vote by proxy, please complete the Proxy Form enclosed with this Notice of Meeting and return it to Boardroom Pty Limited using the enclosed self-addressed envelope or by fax on the number shown on the Proxy Form as soon as possible. For the appointment of a proxy to be effective, the Proxy Form must be completed and received by Boardroom Pty Ltd no later than 24 September 2013 at 10 am (AEST).

By order of the Board of CorVal Partners Limited

DATED this 27th day of August 2013.

Kevin Neville
Chairman
CorVal Partners Limited

SECTION 2 - EXPLANATORY NOTE

Introduction

In June 2009, the Trust acquired Industry House, located at 10 Binara Street, Canberra (**Property**) for $123 million. The financial resources to complete this acquisition were provided by a combination of bank finance and equity funding by CorVal's major shareholder, being an investment vehicle in which Andrew Roberts has a beneficial interest.

In October 2009, CorVal issued a Product Disclosure Statement (**PDS**) for the Trust to raise up to $59.12 million from unitholders. Funds raised were applied to:

- acquire a portion of the units on issue in the Trust from the Andrew Roberts investment vehicle;
- reduce the level of Trust gearing by $13 million; and
- meet the costs of the PDS offering.

Industry House is a 15 level commercial office building completed in 2006. The Property provides a basement level, ground floor, three levels of above-ground car parking and ten levels of office accommodation. The Property is well located opposite the 'Canberra Centre' (Canberra's main retail shopping centre) on the eastern side of the Canberra CBD. The Property is almost entirely (99.1%) leased to the Commonwealth of Australia for a term expiring in December 2021.

At the time the PDS was issued, Industry House was independently valued by Colliers International at $134 million (versus a $123 million purchase price). Despite this, Trust units were offered to unitholders based upon the lower purchase price of the Property, thereby providing the opportunity for investors to co-invest on the same terms as CorVal's major shareholder.

Units in the Trust were allotted at $1 each in two tranches, with 37.13 million units issued on 22 January 2010 and 7.73 million units issued on 1 April 2010.

Subject to any proposal put forward by CorVal or Trust unitholders, the expected term of the Trust was to be between five to seven years from the first allotment date of units in January 2010.

Any proposal to sell the Property before this five (January 2015) to seven (January 2017) year term, or conversely, to extend the Trust term beyond seven years, requires CorVal to:

- convene a meeting of Trust unitholders;
- send unitholders meeting materials that will allow unitholders a period of time to consider the proposal; and

- hold the meeting, at which the required level of unitholder support for the respective proposal was to be obtained.

In the situation whereby CorVal proposes an early sale of the Property ahead of January 2015, CorVal requires the support of at least 50% (by value) of the unitholders that vote on the proposal.

Since units were first allotted to unitholders under the PDS, the performance of the Trust has been:

Year ended	PDS	30.6.10	30.6.11	30.6.12	30.6.13
Purchase price of Property	$123.0 m	-	-	-	-
Value of Property	$134.0 m	$137.5 m	$144.0 m	$144.0 m	$150.0 m
PDS distribution forecast (note a)		8.15	8.25	n/a	n/a
Actual distributions paid (note a)		8.15	8.25	8.25	8.50
Trust LVR (note b)	50.0%	48.7%	46.5%	46.5%	44.3%
Trust NTA per unit (note c)	$0.91	$0.95	$1.02	$1.00	$1.09

Note a Annualised full year distribution for the year ended 30 June 2010.

Note b Property value divided by loan balance

Note c Post allowance for selling costs

The offer to purchase the Property

In June 2013, the Trust received an offer to acquire the Property for $152 million from Brompton.

Brompton is an off-shore group and has recently been active in the Australian commercial office market, having acquired 72 Christie Street, St Leonard's for $62.5 million in November 2010 and 255 London Circuit, Canberra for $55.2 million in January 2011.

Following receipt of the Brompton offer, they were provided with a period of thirty business days in which to exclusively conduct their due diligence over the Property. Brompton have now completed their due diligence and have Board approval to acquire the Property. Further, they also have the required Foreign Investment Review Board (FIRB) approval to acquire the Property.

Subject to obtaining Trust unitholder approval, exchange of contracts between the Trust and Brompton to purchase the Property took place on 8 August 2013.

The final sale terms agreed with Brompton are:

- purchase price of $151.7 million (versus 30 June 2013 valuation of $150 million);
- a deposit of $7.585 million (representing 5% of the Property purchase price) paid on exchange of contracts (which has been paid);
- settlement date of 4 October 2013;
- Brompton to assume full responsibility for the cost of the Property re-paint and re-carpet obligations under the existing lease with the Commonwealth Government; and
- an amount of $3 million out of the settlement proceeds is to be retained for a twelve month period from the date of settlement from which Brompton can make claims against it if there is a breach of any warranty provided by the Trust in the contract of sale. The retention amount will reduce to $1 million and an amount of $2 million will be released to the Trust six months after the settlement date unless Brompton has made prior to this time a bona fide claim (or claims) for breach of any representation, warranty or indemnity made by the Trust in the contract of sale, in which case the retention amount will be reduced by the difference between $2 million and the amount of the claim (or claims). The retention amounts will be held in an interest bearing trust account by the Trust solicitor. All interest will be paid to the Trust unless there is a claim made, with the minimum amount for any claim (or claims) to be no less than $50,000.

The offer from Brompton to purchase the Property now remains conditional only upon CorVal obtaining the required approval from Trust unitholders to approve the sale.

In the event Trust unitholders do not approve the sale as required under the PDS, the Trust will be required to reimburse Brompton their reasonable costs incurred to date with the sale, which are capped at $160,000 plus GST.

If unitholders accept the offer, what returns will have been delivered?

Based upon a settlement date of 4 October 2013, the return delivered to unitholders will be:

NTA per unit (note a)	$1.10
Internal rate of return – **pre** CorVal performance fee (note b)	10.9%
Internal rate of return – **post** CorVal performance fee (note b)	10.7%

Note a Post all selling costs but inclusive of the $3 million of funds held in the retention fund. The 'like for like' commencing NTA per Trust unit when unitholders first invested $1 per unit was $0.91.

Note b Internal rate of return is equivalent to the annualised effective compound rate of return. It includes both the income distributions paid to unitholders over the term of the Trust and their share of the net capital gain on the sale of the Property. It assumes no claim(s) are successfully made by Brompton against the $3 million of funds held in the retention fund for a breach of any warranty as provided by the Trust in the contract of sale.

Why is CorVal proposing an early sale of the Property?

As both an investment manager and co-investor, CorVal employs a disciplined approach to real estate investing that is focused on understanding and evaluating investment risk. We aim to maximise the returns we generate for our unitholders whilst seeking to minimise the level of down-side risks where possible.

We seek to do this by do this by maintaining a detailed knowledge of the various property markets and an understanding of the property fundamentals that drive long term value.

The investment objective in the Trust acquiring the Property was to hold it for between five to seven years to generate long-term stable income returns to unitholders together with the potential for a net capital gain on the sale of the Property at the end of this period.

Overlaying this, in recent times there has been strong demand from a range of purchasers seeking well-located property assets with secure long-term leases (10 + years) in place, to either Commonwealth or State government entities or well capitalised Australian companies. This has been driven by a low global interest rate environment and an increasing pool of capital that is seeking attractive investment opportunities outside of traditional asset classes such as equities, fixed interest and bonds.

Further reasons we have been testing market appetite for the Property relate to the single December 2021 lease expiry to the Commonwealth Government over 99.1% of the Property net lettable area. This lease expiry needs to be considered in the context of:

- the initial expected Trust term was between five (January 2015) to seven (January 2017) years. If the Property continued to be held by the Trust until then, this would then mean the unexpired lease term for the Property would be between 4.9 years (if the Property were held to January 2017) and 6.9 years (if the Property were held to January 2015).

  In either case, the Property may then likely to be of less appeal to the traditional purchaser of such properties on account of a relatively short unexpired lease term for the Property. Typically, these purchasers are seeking properties with a minimum unexpired lease term of no less than 10 years.

  Because the unexpired lease term for the Property would be less than this range if the Trust continued to own it through until January 2015 (and possibly beyond), there is a risk this may have an adverse impact upon the future value of the Property, and therefore, the returns that we deliver to investors; and

- the risks around the Property start to increase on account of a reducing un-expired lease term to what is essentially a single-let property. Whilst institutional or high net worth investors have an appreciation for such risks, they also have the financial resources to deal with such risks.

  CorVal believes that not all investors in the Trust would necessarily be fully aware of risks, and further, a great many of those same investors would not have the required financial resources to mitigate any such future risks.

Additionally, other matters that we considered relevant, which are non-specific to the Property itself include:

- the current, and projected outlook for the Canberra office market (see Appendix A for an overview of the Canberra office market); and

- concerns around the level of potential job cuts to public servants in the Canberra office market that may flow from a change of Commonwealth Government with the upcoming September 2013 Federal election. There has been some market commentary with respect to up to 12,000 Commonwealth positions may be lost with a change of government – equivalent to 11 per cent of the Canberra workforce.

What are the property fundamentals based upon the offer?

Offer price	$151.7 million
Rate per sqm of building area	$6,066 / sq m
Passing yield	7.52%
Equated market yield	7.00%
Internal rate of return	8.90%

Is there any scope to extend the current lease with Commonwealth Government and therefore allow the Trust to continue to own the Property?

CorVal has been in ongoing discussions for a number of years with both the Commonwealth government tenant and their respective advisers/consultants with respect to either an early exercise of the five year option under the existing lease or an extension of the existing lease by the tenant.

This would be in return for a cash incentive payment to help assist with the current budgetary constraints on Commonwealth Government departments.

Whilst the possibility of either these remains, the risks associated with the Trust continuing to own the Property to pursue either of these outcomes need to be considered. These include:

- any uplift in the value of the Property from an extended lease term for the Property may be more than offset by the amount of any cash incentive payment the Trust would be required to pay to the Commonwealth Government tenant to secure the lease extension or early exercise of the lease option;

- the time delays around pursuing such a strategy in the context of a reducing unexpired lease term and rising global interest rate environment, and from this, the down-side risks to the value of the Property decreasing from the current offer of $151.7 million; and

- in the context of any potential change in the Commonwealth Government post the upcoming Federal election, delays in achieving an extended lease tenure given uncertainties around the level of head-count that may be required to be located at the Property, and therefore, time delays in the tenant being in a position to either extend the existing lease or exercise their lease option early.

CorVal considers the downside risks to the future value of the Property from any or all of these factors to offset the potential upside benefits from continuing to own the Property to pursue a lease extension or early exercise of lease option.

What happens if the resolution is passed?

If the required resolution for the Trust to sell the Property is passed by unitholders, the Property will be sold. The net sale proceeds from the sale of the Property (after repayment of the balance of bank borrowings) will then be distributed to unitholders in accordance with the Trust Constitution.

Based upon $3 million being held in retention upon settlement of the Property as required under the sales contract, which reduces to $1 million six months from settlement of the Property, and there being no claims successfully made by Brompton for any breach of sales contract warranties as provided by the Trust, four payments are expected to be made to Trust unitholders as follows:

- circa $0.51 per unit as a distribution of the capital gain in respect of the disposal of the Property on or about 4 October 2013 following settlement of the Property;

- circa $0.59 per unit in consideration of the redemption of circa 96.2% of your units on or about 4 October 2013 following settlement of the Property;

- circa $0.59 per unit in consideration of the redemption of circa 2.5% of your units on or about 30 April 2014, following the release of $2 million of funds held in retention upon settlement of the Property; and

- circa $0.59 per unit in consideration of the redemption of the remainder of your units on or about 31 October 2014, following the release of the final $1 million (plus interest accrued on the retention funds) held in retention upon settlement of the Property.

The sum of the distribution of the capital gain and the redemption proceeds are expected to be approximately $1.10 per unit.

CorVal has determined the Trust should be wound up commencing on the date of the final payment to unitholders on, or about, 31 October 2014.

What happens if the resolution is not passed?

If the required resolution for the Trust to sell the Property is not passed by unitholders, the Property will continue to be owned by the Trust. CorVal will continue to monitor market conditions and seek to sell the Property at a future point in time, either with Unitholder approval (if before January 2015 or after January 2017) or without Unitholder approval if during the two year period of time between January 2015 through January 2017.

There is no guarantee the Property may be sold for any price higher than the current offer price of $151.7 million that is currently before unitholders to consider.

Based upon the current rent review pattern under the existing leases at the Property and the fixed interest rate that is in place on the Trust's loan facility through until July 2015, the projected income distributions that may be paid to unitholders through until the year to end 30 June 2015 if the Trust continued to own the Property are as follows:

	30 June 2014	**30 June 2015**
Trust earning rate (EPU)	9.93 cents	10.47 cents
Trust distribution rate (DPU) (note a)	8.50 cents	8.50 cents

Note a Assumes $0.6 million of Trust earnings applied towards re-painting and re-carpeting works in FY14 and $1.8 million of Trust earnings applied to reduce bank debt in FY15.

What are the taxation consequences if the resolution is passed?

AUSTRALIAN RESIDENTS

Regular income distribution

You will receive a normal distribution in respect of the net earnings of the Trust for the period from 1 July 2013 to the sale of the Property.

This distribution will be treated in the same manner as prior distributions from the Trust. That is, a portion of the distribution will be included in your assessable income and a portion of the distribution will be 'tax deferred'. The tax deferred portion will reduce the cost base of your units in the Trust.

Capital gain distribution

You will receive a distribution of your share of the gross capital gain made by the Trust in respect of the disposal of the Property.

The Trust will apply the 50% CGT discount in respect of the disposal of the Property.

If you are an Australian resident, you will be required to "gross-up" your share of this capital gain to its original amount before applying any available capital losses that you have. If you are an individual or a trust, you may apply the 50% CGT discount in respect of any remaining net capital gain. If you are a complying superannuation fund, you may apply the 33% CGT discount in respect of the net capital gain. If you are a company, you cannot apply the CGT discount.

Disposal of your units

Following the capital gain distribution, units in the Trust will be redeemed for an amount equal to the cash remaining in the Trust. The redemption of units will occur in stages, with most units redeemed in the year ended 30 June 2014.

If you are an Australian resident and you acquired your units in the Trust for the initial $1.00 issue price, you should make a capital loss in respect of the disposal of your units in the Trust. The capital loss in respect of the units redeemed in the year ended 30 June 2014 will be able to be applied against your share of the capital gain on disposal of the property.

If you are an individual or a trust, you may apply the 50% CGT discount in respect of this net capital gain. If you are a complying superannuation fund, you may apply the 33% CGT discount in respect of this net capital gain. If you are a company, you cannot apply the CGT discount.

The capital loss in respect of the units redeemed in the year ended 30 June 2015 will not be able to be applied against your share of the capital gain on disposal of the property, but may be able to be applied against other capital gains in that year or a later year.

Example – Australian resident

The following example is based on illustrative figures only. The final capital gain and distribution figures will be determined following the conclusion of the transaction.

Julia owns 10,000 units in the Trust. She receives a capital gain distribution of $5,170, split as follows:

Discounted capital gain	$2,585
CGT concession component	$2,585

Julia's units are redeemed for $5,650. She calculates the capital loss on her units as follows:

Initial cost	$10,000
Tax deferred since acquisition	<u>($2,290)</u>

Cost base	**$7,710**
Redemption proceeds	$5,650
Capital loss	**$2,060**

Of Julia's 10,000 units, 9,500 units are redeemed in the year ended 30 June 2014. This means that $1,957 of the capital loss arises in that year

Julia's overall position in the year ended 30 June 2014 is:

Trust capital gain	$5,170
Less capital loss	($1,957)
Net capital gain	**$3,213**
Less CGT discount	($1,606.50)
Assessable income	**$1,606.50**

NON-RESIDENTS

Regular income distribution

A portion of the distribution for the period from 1 July 2013 to the sale of the property will be subject to managed investment trust withholding tax at 15% or 30%, depending upon the jurisdiction in which you are resident.

Capital gain distribution

The distribution of the gross capital gain from the sale of the property (before the CGT discount is applied) will be subject to managed investment trust withholding tax at 15% or 30%, depending upon the jurisdiction in which you are resident.

Disposal of your units

You will disregard the capital loss on disposal of your units in the Trust unless you and your associates hold 10% or more of the units in the Trust.

SECTION 3 – PURPOSE OF THE MEETING AND RECOMMENDATION

CorVal, the responsible entity for the Trust, is seeking unitholder approval for the early sale of the Property. This is because we believe market conditions are now at their optimum, and this, combined with the current length of the unexpired lease term for the Property, present the most favourable time to sell the Property.

The Board of CorVal recommends unitholders vote in favour of the resolution as put forward.

To vote in favour of the resolution, unitholders should:

1. **ATTEND the unitholder meeting to be held on level 13, 9 Hunter Street, Sydney at 10 am (AEST) on 26 September 2013; or**

2. **If you are unable to attend the meeting, SEND the completed Proxy Form either by post in the enclosed pre-paid envelope to**

   Boardroom Pty Limited
   GPO Box 3993
   Sydney NSW 2001

   OR

   By fax to +61 2 9290 9655

   OR

   In person to
   Boardroom Pty Limited
   Level 7, 207 Kent Street
   Sydney NSW 2000

For the appointment of a proxy to be valid, a correctly completed Proxy Form must be received by CorVal no later than 10am (AEST) on Tuesday 24 September 2013.

Any queries?

If you have any queries about the meeting, then please contact either your financial adviser (if you have one) or CorVal on (02) 8203 8400.

APPENDIX A
CANBERRA OFFICE MARKET OVERVIEW

Overview

The Canberra office market contains 2.284 million square metres of net lettable space, split into 26 sub-localities. The largest locality is Civic with 692,796 square metres. A Grade stock dominates the Canberra office market, representing 42% of the market. The Canberra office market's performance is historically cyclical, and is impacted on by elections and subsequent fluctuations in the size of the public sector.

Vacancy

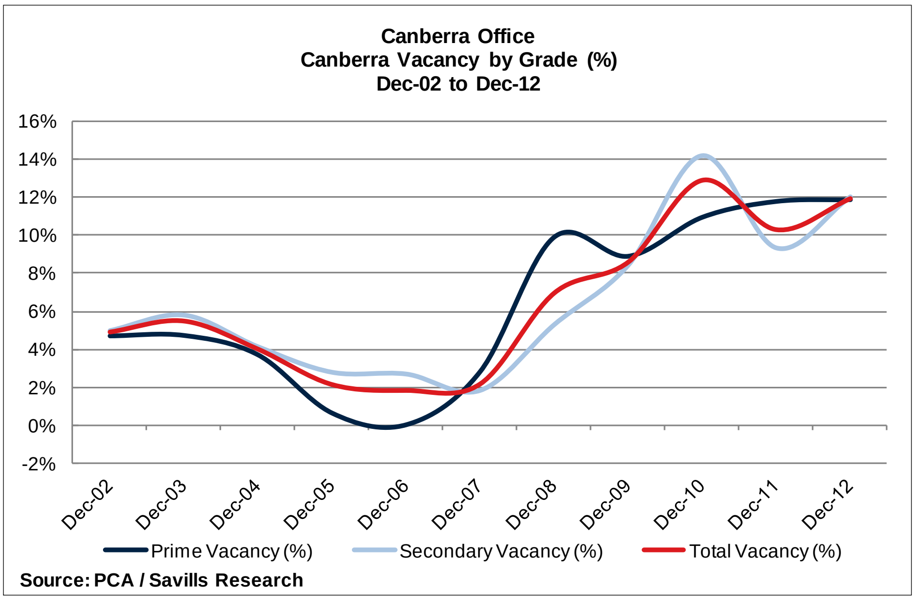
The current composition of the total Canberra market by grade is illustrated in the table below:

Canberra Vacancy Rates – January 2013

Grade	Stock m²	Total Vacancy m²	Vacancy January 2013	Vacancy January 2012
A	967,947	114,589	11.8%	11.7%
B	568,582	63,483	11.2%	5.1%
C	652,548	72,154	11.1%	10.7%
D	95,042	22,247	23.4%	24.5%
TOTAL	**2,284,119**	**272,473**	**11.9%**	**10.3%**

Source: PCA/Savills Research

The vacancy for the whole Canberra market is illustrated in the following graph:



Whilst the overall Canberra vacancy rate has in fact improved from the historically high of 13.6% recorded in July 2010, the market is now starting to see the full impact of the move by tenants from older buildings into "Green" credentialed buildings constructed during the recent development phase. This trend is likely to continue into the medium term.

The statistics may be further analysed on a region/precinct basis as follows:

Precinct	Grade	Total m^2	Vacancy m^2	Jan 2013	Jan 2012
Total Market	All	2,284,119	272,473	11.9%	10.3%
Civic	All	692,796	83,269	12.0%	8.6%
	'A'	279,874	10,900	3.9%	7.6%
	'B'	202,544	41,218	20.4%	4.9%
	'C'	173,320	26,275	15.2%	13.0%
	'D'	37,148	4,876	13.1%	14.4%
Non-Civic	All	1,591,323	189,204	11.9%	11.0%
	'A'	688,073	103,689	15.1%	13.5%
	'B'	366,038	22,265	6.1%	5.2%
Airport	All	200,301	82,982	41.4%	36.9%
	'A'	192,301	82,892	43.2%	38.7%
Barton/Forrest	All	294,389	22,572	7.7%	5.6%
	'A'	185,934	7,465	4.4%	3.8%
Belconnen	All	146,757	2,971	2.0%	1.8%
Deakin	All	99,901	16,339	16.4%	15.8%
Parkes	All	83,236	0	0%	0%
Phillip (Woden)	All	192,374	21,470	11.2%	15.7%
Tuggeranong	All	124,235	4,151	3.3%	3.4%

Source: PCA/Savills Research

The significant factors emerging from this analysis are summarised as follows:

- The 'A" Grade markets in the CBD (in which the Industry House property sits) and the Barton/Forrest precinct are still performing strongly, with vacancy factors of 3.9% and 4.4% respectively. It should be noted however that both these precincts will experience a significant increase in supply over the next few years, especially the Barton/Forrest precinct.
- The "B" Grade market in the CBD has experienced a significant increase in vacancy during the past 12 months (4.9% to 20.4%) reflecting in part the move by tenants from older buildings to new buildings.
- The Belconnen and Tuggeranong Town Centres are performing strongly, with vacancy factors of 2.0% and 3.3% respectively.
- The Woden Town Centre is experiencing a period of relatively high vacancy coinciding with lease expiries in a number of older buildings, and a move by tenants into new buildings constructed in the past few years. The centre is expected to continue to experience relatively high vacancy into the medium term.

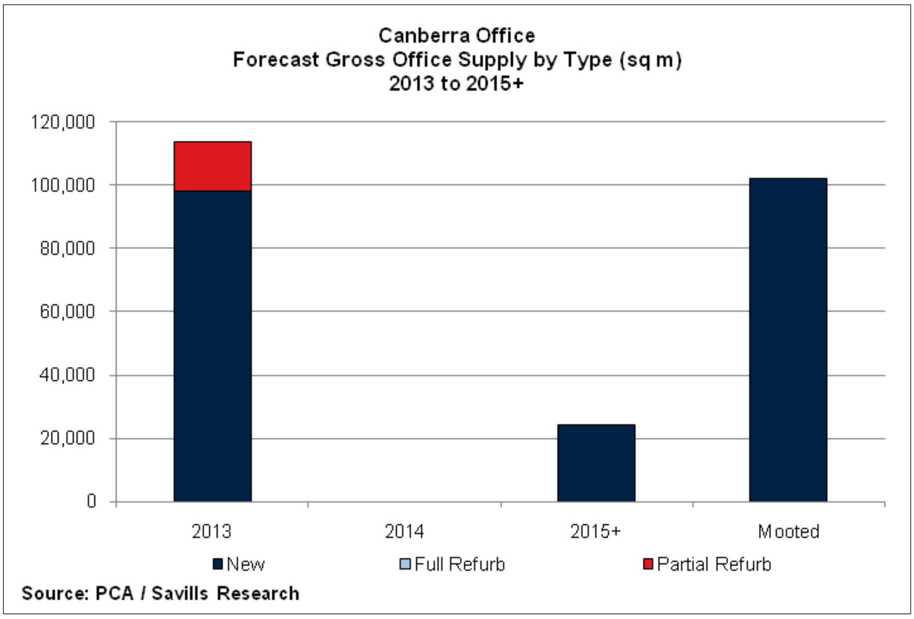
- Despite net absorption of 12,330m^2 during the YE December 2012, the Canberra Airport precinct is responsible for 30.4% of the total vacant accommodation in Canberra, while providing only 8.8% of the total NLA in the city. The significance of the vacancy at the Airport on the overall Canberra market is further illustrated in the following schedule:

Precinct	Total m^2	Vacancy m^2	Vacancy Jan 2013
Total Market	2,284,119	272,473	11.9%
Airport	200,301	82,982	41.4%
Market Ex-Airport	2,083,818	189,491	9.1%

Source: PCA/Savills Research

New Supply

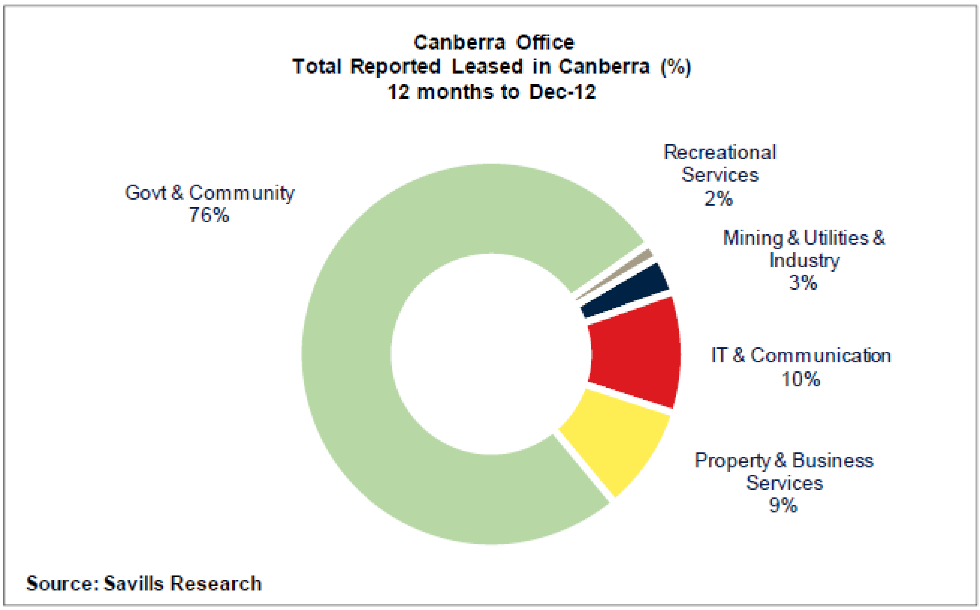
Canberra has had one of the strongest supply pipelines nationally, a trend that continued even through the financial crisis. Future supply in the Canberra office market remains robust with approximately 110,000 square metres of new and refurbished space currently under construction and/or due for completion by the end of 2013. As well as the stock under construction, there is also an additional 132,500 square metres of actual and mooted new supply. The future supply is illustrated in the following graph:



The actual and mooted new supply will act to maintain relatively 'soft' leasing market conditions in Canberra during the next few years.

Leasing Demand

The Government and Community was the dominant sector in analysed leases in Canberra in the 12 months to January 2013, leasing 76% of the stock. The IT & Communications Sector was the next highest sector with 10% of the stock. These results are illustrated in the following graph:

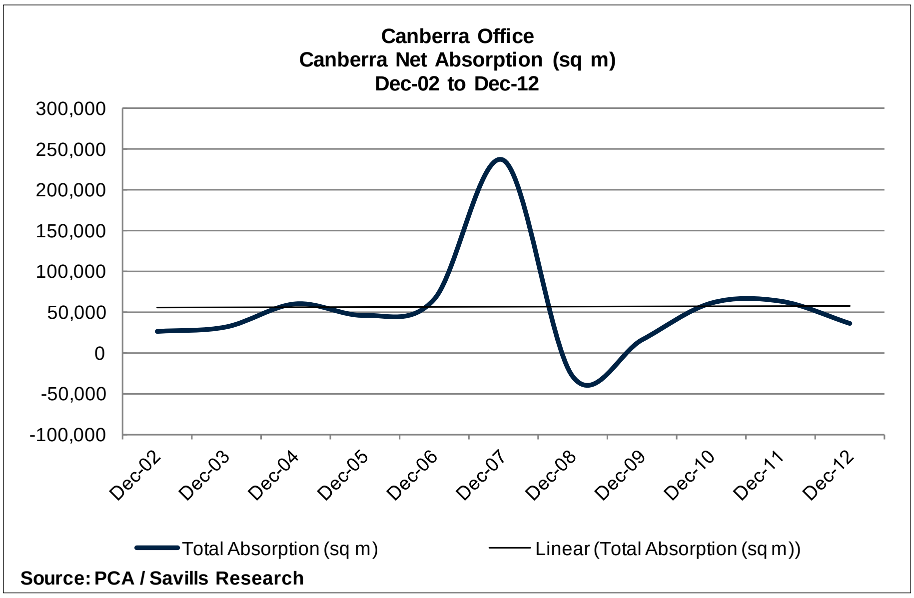


These statistics highlight the fact that the Canberra Office Market is dominated by demand from the Public Sector, and as a result of a lessening in activity in this sector during the past few years, the market has experienced softening conditions.

Some of the factors affecting demand in the Canberra office market include the movement of Commonwealth tenants into new 'Green' buildings, the Department of Finance policy reducing work space ratios in the Public Service (with much of any new demand satisfied by the resultant sublease space), the *'Efficiency Dividend'* policy in the 2012 Commonwealth Government Budget, and the general reduction in Commonwealth Government activity having a flow-on effect to private sector businesses that rely on Government work. The fall in jobs, mainly concentrated in the public sector, is reflected in the relatively high vacancy rate.

Noting that 2013 is a federal election year (which traditionally results in lower levels of government activity leading up to the election date), and that the Commonwealth Government budget is subject to a degree of stress due to lower than expected Commonwealth revenue, a continuation of weak leasing demand from the Commonwealth Government through a significant portion of 2013 would not surprise.

Net absorption of 36,394 square metres was recorded for the Canberra office market in the 12 months to January 2013. This follows on from a sustained positive absorption in Canberra that has seen just one period of negative absorption since June 1998.



Gross face rents in Canberra as at March 2013 typically range between $400 per square metre and $465 per square metre per annum for A Grade buildings, and between $325 per square metre and $395 per square metre per annum for secondary grade buildings. The average A Grade rent for Canberra is currently in the order of $420 per square metre.

Major Canberra Office Leases

Address	Tenant	Area	Start Date	Gross Rent	Term	Reviews
McEwen Crescent, Barton	Commonwealth	45,382m^2	Mar 2015	$425/m^2	15 yrs	Various
4 National Circuit, Barton	Commonwealth	6,342m^2*	Sep 2013	$465/m^2	15 yrs	Fixed 3.25%
Cowlishaw, Greenway	Commonwealth	26,000m^2*	Jul 2013	$494/m^2	18 yrs	Fixed 3.50%
28 Sydney Ave, Forrest	PWC	5,056m^2 *	Jul 2013	$460/m^2	12 yrs	Fixed 3.50%
Edinburgh Street, City	Clayton Utz	1,896m^2	Dec 2012	$535/m^2	15 yrs	Fixed 3.85%
40 Cameron, Belconnen	Hewlitt Packard	5,692m^2	Nov 2012	$375/m^2	5 yrs	Fixed 3.50%
38 Sydney Ave, Forrest	Commonwealth	9,000m^2	Nov 2012	$425/m^2	5 yrs	Fixed 3.50%
18 Canberra Ave, Forrest	Commonwealth	9,630m^2 *	Nov 2012	$442/m^2	15 yrs	Fixed 3.50%
14 Moore Street, City	Commonwealth	4,442m^2	Oct 2012	$395/m^2	3 yrs	Fixed 2.75%
10 National Circuit, Barton	Private Sector	3,162m^2	Oct 2012	$370/m^2	3 yrs	Fixed 3.75%
4 Marcus Clarke, City	Commonwealth	2,354m^2	Sep 2012	$390/m^2	5 yrs	Fixed 4.00%
121 Marcus Clarke, City	Commonwealth	8,824m^2	Jul 2012	$420/m^2	10 yrs	Fixed 3.50%
6 National Circuit, Barton	Commonwealth	1,693m^2	Jul 2012	$460/m^2	15 yrs	Fixed 4.00%
Garema Court, City	Commonwealth	10,883m^2	Apr 2012	$390/m^2	12 yrs	Fixed 4.00%
10-12 Mort Street, City	Commonwealth	15,447m2	Mar 2012	$410/m2	5 yrs	Fixed 3.75%

*Pre-commitment to building currently under construction

A Grade rents and incentives have remained relatively stable during some of the toughest market conditions in recent history. Economic rents for new buildings with abnormally high specifications are maintaining upward pressure on new A Grade rents. It should be noted however there is a degree of volatility emerging in the level of incentives being offered in this market sector; dependent on the size and quality of the specific building, and the level of competition for tenants in the immediate area.

However, the outlook for secondary buildings in Canberra is more uncertain. The disparity in the quality of accommodation between A Grade and secondary grade stock continues to widen and this will place continued pressure on incentives and effective rents in the secondary market sector.

The widening gap between rents for A Grade and Secondary Grade buildings, and current budgetary constraints on Commonwealth Departments, are however creating increasing opportunities for owners of Secondary Grade buildings to retain existing tenants. There are now instances where Commonwealth Government tenants are renewing leases in well located older buildings (subject to significant refurbishments) due mainly to a lack of funding for fitting out new premises, and for premium rents. Examples of significant lease renewals in the city include 10-12 Mort Street, City (15,447m^2), RG Casey Building, Barton (45,382m^2), 25 Constitution Avenue, City (16,986m^2), and 38 Sydney Avenue, Forrest (9,000m^2).

Commentary from the Federal coalition in recent times has noted that should it be elected to government in the forthcoming election, employment levels in the Commonwealth Public Service will be reviewed. Should a new Coalition Government reduce Public Sector numbers, the threat to employment levels in Canberra could be significant, with a negative impact on demand for office accommodation.

Sales Activity

There have only been seven sales of significance in Canberra during 2011-2012; three in the CBD at $225.888 million, $55.8 million and $19.0 million, two in Barton at $31.75 million and $13.5 million, one in the Woden Town Centre at $14.0 million (Receiver sale), and one in the Tuggeranong Town Centre at $83.0 million (sale of a 50% interest by a Receiver). Four of the sales were to interstate entities, two to overseas investors, and the seventh sale was to a local investor/developer. The last sale of a significant office property in Canberra occurred in June 2012. There have been no sales of significant office buildings in Canberra since June 2012.

Canberra has been the last monitored market in Australia to record a marked slowdown in sales activity, and indeed had been performing relatively strongly until now. Doubtless the effects of the global credit crisis have finally taken their toll on the nation’s capital. It remains to be seen if any changes in policy will have a negative effect on the Canberra office market.

Capital values in the Canberra CBD as at March 2013 typically range from $4,500 per square metre to $6,500 per square metre for A Grade buildings, and between $2,500 per square metre and $4,250 per square metre for secondary grade buildings.

Market yields in the Canberra CBD as at March 2013 typically range from 7.00% to 8.00% for A Grade buildings; and between 8.25% and 10.50% for secondary grade buildings.

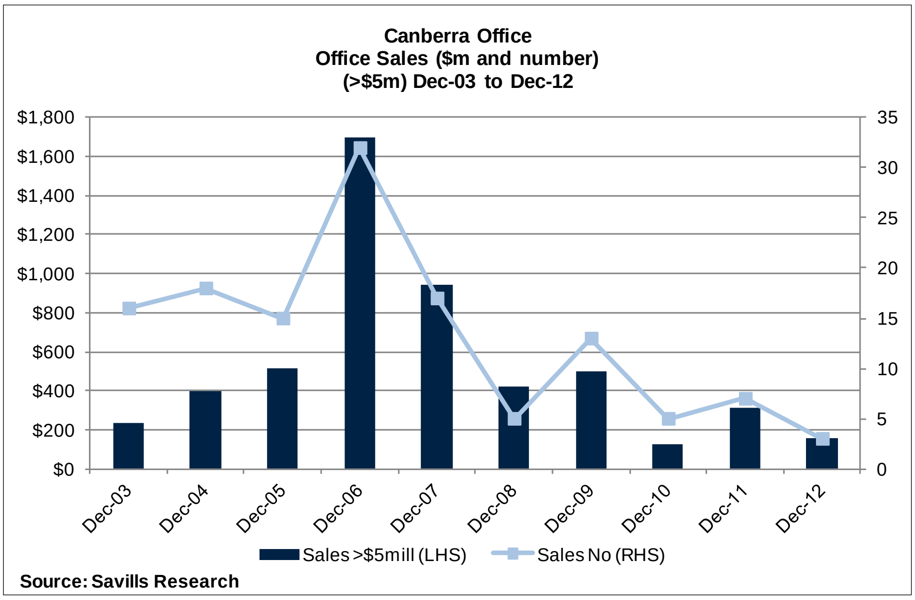
Major Canberra Office Sales

Date	Property	Price (millions)	NLA (m^2)	Price (per m^2)	Market Yield
Jun-12	2-6 Bowes Street, Phillip	$14.000*	12,622	$1,109	14.70%
May-12	10-12 Mort Street, City	$55.800	15,447	$3,612	9.70%
Mar-12	57 Athllon Drive, Greenway	$83.000**	38,419	$4,312	8.60%
Dec-11	50 Marcus Clarke Street, City	$225.888	40,201	$5,619	7.30%
Aug-11	50 Blackall Street, Barton	$13.500	5,033	$2,682	10.00%
May-11	9 Brisbane Avenue, Barton	$31.750	10,252	$3,097	8.55%
May-11	17 Moore Street, City	$19.000	6,258	$3,036	9.50%
Dec-10	255 London Circuit, City	$55.200	9,167	$6,022	7.25%
Dec-10	15 National Circuit, Barton	$25.060	6,531	$3,857	8.95%
Aug-10	**6 National Circuit, Barton**	**$19.200**	**6,178**	**$3,108**	**VP**

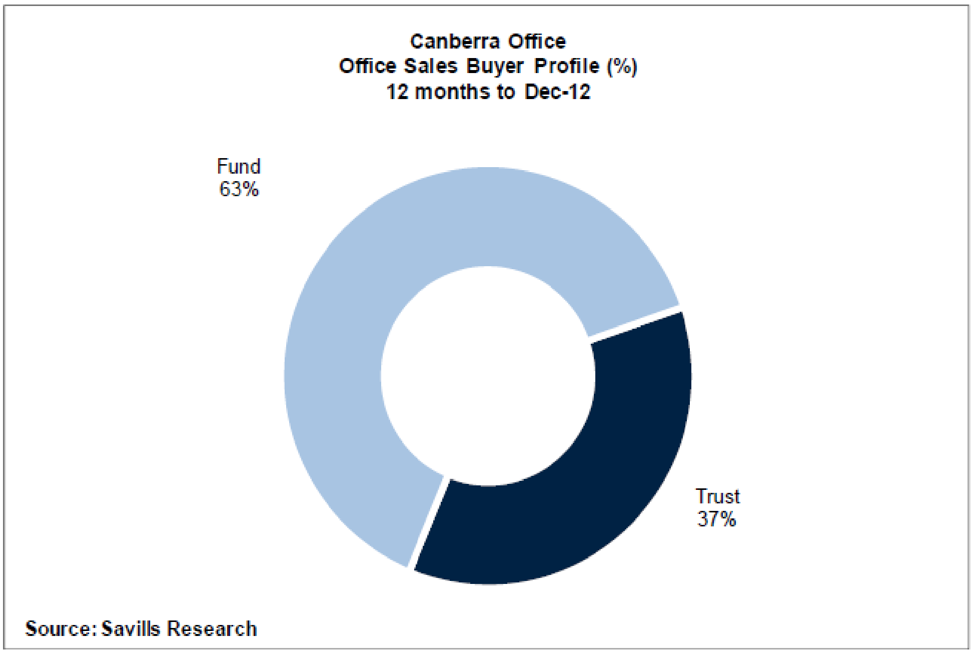
Source: Savills Research

*Sale by a Receiver ** Sale of a 50% interest by a Receiver

Both the value and volume of sales has fallen significantly in Canberra from a peak of $1.2 billion (20 sales) in the year leading up to the GFC in late 2007; to $392 million (5 sales) for the year ending June 2012.



The buyer profile for major Canberra investment property is dominated by investment funds, and within that sector, by overseas funds.



Outlook

The Canberra office market continues to deliver robust levels of stock, as has been the trend for a number of years. Despite equally remarkable net absorption, the flight to quality by large space users has maintained upward pressure on the overall vacancy rate.

Office demand in Canberra has been impacted by not only the general flow-on effects of the financial crisis, but also by reduced Commonwealth Government activity in recent years, recent new policy reducing work space ratios in the Public Service, as well as new requirements on Commonwealth tenants to meet certain 'Green' credentials in their tenancies.

Whilst the overall office vacancy rate for the city is at 11.9%, the vacancy is not spread evenly. The A Grade market in the main office areas of the CBD and the Barton/Forrest precinct is currently performing strongly, as are the Tuggeranong and Belconnen Town Centres; all with sub-5% vacancy rates. However, the CBD B Grade market, Woden Town Centre, and the Airport are all experiencing high vacancy rates. It is anticipated these conditions will remain in place throughout much of 2013, with the A Grade vacancy rate in the Barton/Forrest precinct expected to rise (marginally) as new stock currently under construction is completed.

As 2013 is a federal election year, it can be expected a further softening in demand from the Commonwealth leading up to the election. Announcements by the Coalition that it will make significant reductions in the size of the Commonwealth Public Service, should it be elected, are creating an atmosphere of caution and uncertainty in the Canberra market.

Future supply remains robust over the medium-term; however, only a proportion of this supply is currently pre-committed. As such, the future addition of vacant space will place upward pressure on the overall vacancy rate.

Rents for A Grade stock appear to be maintaining a stable level, although there is an emerging volatility in the level of incentives on offer for this class of property.

Rents for Secondary Grade stock are forecast to continue to be under pressure during 2013, with upward pressure on the level of incentives required to secure tenants for this class of property.

The current low level of demand from purchasers of secondary grade stock is expected to continue, with the potential for a softening of yields for this class of property, especially where vendors come under pressure to sell.

However, interest in first grade stock, especially those subject to long-term leases to the Commonwealth, and located in the prime office areas of the CBD and the Barton/Forrest precinct, will remain strong, with almost no stock available for sale. It isn't expected there will be a softening of yields for this class of property, and a tightening of yields would not surprise given the increasing level of interest in high quality Australian assets from overseas funds.