
From: IIG | Investor Services <services@impact-group.com.au>
Sent: Wednesday, 17 July 2019 3:55 PM
To: Info - Australian Impact Investments
Cc: Info Ethinvest
Subject: IIG 401 Collins Trust | FY19 Q4 Distribution
Attachments: IIG 401 Collins Trust - FY19 Q4 Distribution.pdf

Dear Trevor

IIG 401 Collins Trust – FY19 Q4 Income Distribution and Property Update

Quarterly Distribution

We are pleased to report that the IIG 401 Collins Trust (the **Trust**) has made its distribution payment for the quarter ended 30 June 2019.

The details of your quarterly distribution are set out in the attached Unitholder Distribution Statement. Your quarterly distribution represents a return of 6.33% per annum.

Property Update

Major Leasing & Tenant Updates

Our last quarterly update advised that the ground floor tenant, Natural History Bar & Grill, had made modifications to their restaurant with some improved sales experience. Despite these improvements in sales turnover, Natural History continues to report that its trading performance remains below expectations. We have worked closely with the tenant over the past six months to achieve a mutually acceptable outcome which will allow them to trade profitably and remove the prospect of the tenant being forced into administration. The same ownership group connected with Natural History also leases a basement tenancy at 401 Collins Street which they have previously requested to surrender.

Accordingly, we have agreed the following key modifications to the tenants' lease terms:

- Reduction of rent on the ground floor from 1 March 2019;
- Including a percentage rent provision to allow the Trust to benefit from increased sales by the tenant;
- The tenant will provide a bank guarantee for six months' rent and outgoings (increased from current two months); and
- Permit the tenant to surrender part of the basement space effective 28 February 2019. The ground floor tenant will retain and pay for approximately one quarter of the basement space. The financial impact to the Trust is a loss of approximately \$420,000 of rent and outgoings per annum. We realise this will be a disappointing outcome for investors, but the Trustee believes the agreement represents the best possible outcome, considering that the cost of re-leasing the ground floor tenancy would be around \$1.3 million and may result in a vacancy period of at least 12 months. This would not be a desirable outcome given the proposed campaign to sell the property.

FY20 Budgeted Distributions

As a result of the revised lease arrangements described above, budgeted distributions for FY20 are anticipated to be 5.1%, unfortunately considerably below FY19.

Updated Property Valuation

We are currently finalising an updated property valuation being prepared by Jones Lang LaSalle. The draft valuation is \$70 million, an uplift from the previous valuation of \$66 million. The valuation adopted the reduced rent on the ground and basement floors, with the uplift driven by a compression in the adopted capitalisation rate from 5.00% to 4.50%. This compression reflects the strong ongoing demand and active market for prime Melbourne CBD office buildings and will result in solid net tangible asset backing growth for Trust investors.

Property Sale Process

Following strong investor support for exploring a sale of the property, we obtained submissions from five major real estate agencies to sell the property on the open market.

Having resolved the lease issues with Natural History, we believe it is now the right time to pursue a sale of the property and will look to commence a sales campaign in the coming months with a view to completing a transaction by the end of the 2019 calendar year.

Should you have any questions in relation to your quarterly distribution or anything else in this update please do not hesitate to contact us.

Yours Sincerely

Darren,

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