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Becton Investment Management
Quarterly Report

# review

Winter 2007

> Products open for investment
> Updates on all funds
> Becton retirement living

A look at property development

## risk and return

Head of Funds Management
Matthew Chun explains – see page 4

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# In this Report




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**Note to reader:** All property market data within this report has been sourced from Jones Lang LaSalle research unless stated otherwise.

# Becton Property Group CEO report

Hamish Macdonald

I write this report as FY07 comes to an end and I would like to take the opportunity to reflect on some highlights from the past year and outline Becton's plans heading into FY08.

Last week the IRESS FY07 Total Shareholder Return Index ranked Becton second out of all ASX property securities, with a total shareholder return of 134.2%. By comparison, the same measure for the S&P ASX 200 Property Index was 25.9%. This is an excellent result for Becton and gives us great confidence to continue the growth plans that are in progress across all areas of the business.

Becton's strategy is to leverage our proven development and construction capability into growth areas of retirement villages and property funds management. Our focus is on maximising total shareholder return by combining our complementary property capabilities to produce strong recurring income streams and capital growth.

**FY07 Highlights**

The last 12 months have been among the most exciting periods in my 13 years at Becton. We have expanded our national presence and profile, most significantly in New South Wales and Western Australia, and grown revenue through the successful implementation of our integrated business model.

Back in August 2006, Becton secured approval to develop a $130 million resort in Byron Bay, NSW. This site is the last significant waterfront site in Byron Bay and represents a valuable opportunity for Becton to continue its tradition of creating exceptional developments in exceptional locations. The planning on this project is now well advanced and we have commenced selling.

In October 2006, the NSW Government awarded a consortium, lead by Becton, a $733 million urban renewal project in Bonnyrigg, south-west Sydney. This project cements Becton's leadership position in the emerging area of affordable housing and will deliver Becton more than a decade of annual revenues commencing in 2010.

We have acquired six development sites in the last 12 months as part of our plan to create a national portfolio of high quality retirement villages that contribute strong recurring earnings for Becton. Two significant acquisitions in WA boost Becton's retirement business in the west: a 123 dwelling retirement village in Bunbury, and a development site in Vale that will deliver 131 dwellings. These assets bring the gross real estate value of Becton's current retirement portfolio to approximately $700 million.

In February this year, the funds management team celebrated a major milestone in reaching $1 billion in funds under management. This milestone reflects the success of many years of hard work establishing all aspects of the business. The milestone is also the result of the active management approach the funds management business applies at each step of the investment process. The investors in the funds managed by Becton continue to enjoy strong, non-volatile returns due to the active hands-on approach the team applies. This is undertaken by an experienced property team that has built rigorous processes and systems that allow the Group to identify opportunities in markets that our competitors may not.

**Plans as we head into FY08**

Heading into FY08, we will continue to expand our national presence and profile through successful establishment of our business model in key locations. Our dynamic approach and culture underscores our ability and commitment to attract and motivate the exceptional people who combine their talent and energy to deliver Becton's promises. We will continue to invest in our people and culture as a key driver of sustainable growth.

In closing, I would like to congratulate all members of the Becton team on the achievements of the past year, and thank investors for your continued trust and support.

**Hamish Macdonald**

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# Head of Funds Management report

Matthew Chun

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Given Becton Property Group's expertise in the area of property development, this month's cover story is about investing in this significant area of the property market. We thought this was a suitable time, given recent property financing collapses, to provide an insight into how Becton assesses development projects and the appropriate return that should be received for the risk.

With another financial year behind us, we are extremely pleased to report another strong set of results for 2006/07:

- Average total return across all our funds was 26.24%
- Property valuations since December have increased by 11.46% or $79 million
- Gearing has reduced to 54% as an average across the portfolio
- Average income distribution across the funds was 9.23 cents per unit

The above numbers are the result of a dedicated team committed to driving exceptional property returns through our active investment management approach. We have worked tirelessly in creating and improving our systems, our research and analysis, our relationships to enable deals to be secured both from an acquisition and leasing perspective and our investor communication. All this provides the ingredients to produce consistent, sustainable returns for our investors. I am extremely proud of our team and what we have achieved this year.

**Economic Conditions**

Economic commentators are describing Australia's economy as delivering solid growth with contained inflation. Overall GDP is running at 3.8% p.a. which is the strongest numbers for just more than 12 months. It is important to note, this statistic does not reveal the full story when you drill down into the State-by-State performance. Western Australia is the strongest with 10.2%, with the ACT a distant, but surprising, second at 6.5% and Queensland a close third at 6% p.a. Victoria, New South Wales and South Australia are very similar at 3% while Tasmania is just positive at 0.5%.

Looking forward, we expect consistent growth as long as inflation can be controlled. Our expectations are that Western Australia will slow down and New South Wales will begin to accelerate with steady performances from the rest of Australia. Overall, the economic position of Australia provides a solid base for property investing especially with the volatile performance of the stock market in recent times.

**Staff**

We are pleased to announce to investors that we have further boosted our team in the last few months and have welcomed the following new staff:

- Rob De Vos – Fund Manager: Rob joins us from Ceramic Funds Management and brings specialist skills such as active listed property investing and specialised asset investing in assets such as child care and police stations.
- Francis Soesanto – Financial Controller: Francis joins us from Timbercorp, bringing specialist funds management accounting experience.
- Jenny Kabayan – Investor Services Manager (Vic & Tas): Jenny joins us from Centro Properties Group where she was a business development manager.
- John Byrnes – Investor Services Manager (NSW): John has been a business development manager since 2000 and has worked for various fund managers.
- Stewart Schache – Customer Service Officer: Stewart joins us from Super Partners and plays the vital role of being the direct interface with our investors.

Our team now totals 42 people – up from 18 people at the same time last year.

**Tax Statements and Investor Presentations**

At the time of writing, the tax statements are almost complete and due for distribution by the end of August. This is a significant improvement on previous years and is pleasing given the amount of time and effort we have put into this area to achieve this result.

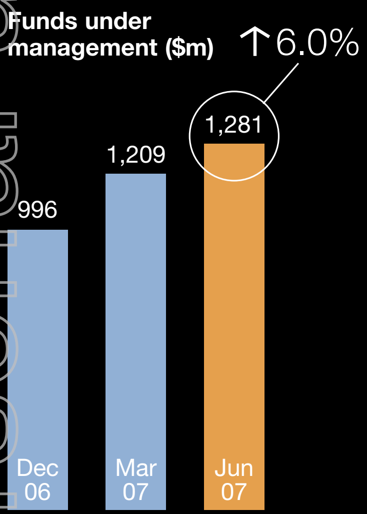
Our annual presentations to investors will be scheduled in mid-October, with investors to be notified in the coming weeks. Due to the widening of our investor base, presentations will be held in Perth, Sydney, Brisbane, Adelaide and Melbourne for the Becton Diversified Property Fund and sector funds (office, retail and industrial), and Perth and Adelaide for the single property trusts as well as the sector funds.

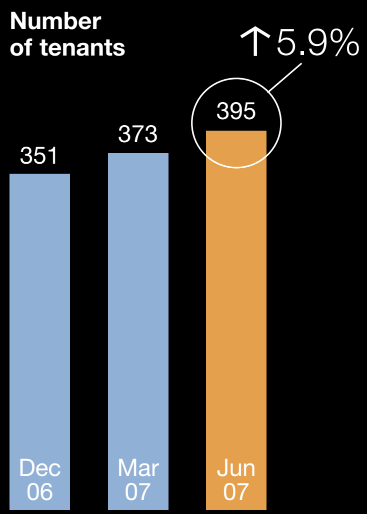
We welcome any feedback that you may have in relation to this publication or our service in general. Thank you for your continued support of Becton.

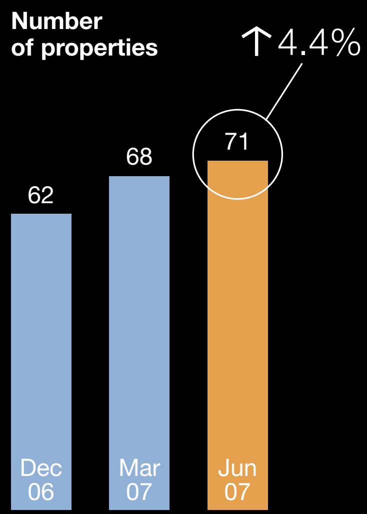
**Matthew Chun**

# Investor highlights

Becton recently completed the valuation of 32 assets within its portfolio, resulting in a $79 million (or 12%) uplift across all revalued properties. These increases have been driven by leasing, redevelopment and market conditions.




**15.1%**

Valuation growth of the 15 revalued properties in Becton Industrial Fund

**72**

Total number of properties in Becton funds

**$1.3b**

Total of funds under management as at 30 June 2007

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# A look at property development risk and return

**By Matthew Chun, Head of Funds Management**

All investments involve some level of risk. Whether you are investing in fixed interest, shares or property it carries some form of risk.

The investment decision made by all investors should depend on the answer to the question, 'is my potential return worth the risk'? In its simplest form, this analysis is undertaken when we buy a raffle ticket or an entry in lotto. The amount paid for this ticket (normally a minimal amount) can be justified for the large return winning can provide, even though the probability of any return is extremely low. If the raffle ticket or lotto ticket was materially more expensive, say 50% of the potential end prize, then few people would be prepared to invest with such a low prospect of a return. While this example is extreme, it illustrates the importance of asking the question, 'is my potential return worth the risk?'

In the investment environment, the well regarded benchmark of 'risk free' investing is generally known as the 10-year bond rate. If you invest in a 10-year government bond, there should be no risk of not receiving the return at the end of the 10 years. At the time of writing this article, the current 10-year bond rate is 6.1%. Any investment that carries a level of risk should have a total return (income and capital) that exceeds the 10-year government bond rate.

The next part of the analysis is – by how much should this risk free rate be exceeded?

In buoyant economic times, such as the current economy, the risk premium is quite low. For example rates of total return from residential property over the past 10 years have averaged between 7–10% pa (income and capital returns) whilst commercial property has returned between 8–13% p.a.

Therefore income producing property of this type has commanded a risk premium of 2–7% above the 10-year government bond rate.

**Investing in Property Development**
To adopt the above method to investing in property development, the investor needs to understand the main risks associated with property development. The Becton approach to development risk is summarised into five categories:

| Type | Risk Description | Major Impact |
|---|---|---|
| **Ownership and Zoning Risk** | Is the development controlled and does the zoning allow the purposed development? | Revenue, cost and timing of development |
| **Planning Risk** | Does the proposed design comply with planning regulations? | Revenue, cost and timing of development |
| **Market Risk** | Is there a market for the product, have tastes changed that result in increased/decreased demand for product? | Revenue, and time required to sell (which will impact cost) |
| **Construction and Completion Risk** | Change in total cost to build the project. Due to materials changing, labour cost changing, unforeseen complications | Time and cost |
| **Settlement** | The risk of revenue not being received due to purchases not settling | Time and revenue |

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The above risks are a very general overview of those faced by developers and are by no means an exhaustive list.

As the project is developed, the risks begin to diminish. For example, once the appropriate zoning and planning is achieved that risk is eliminated. The next risk, market risk, is addressed by pre-selling, while construction risk is addressed by negotiating fixed-price contract etc.

Becton's view is that when an investor is making a decision to invest in a property development, it is critical the investor understands at what stage the project is at in its lifecycle.

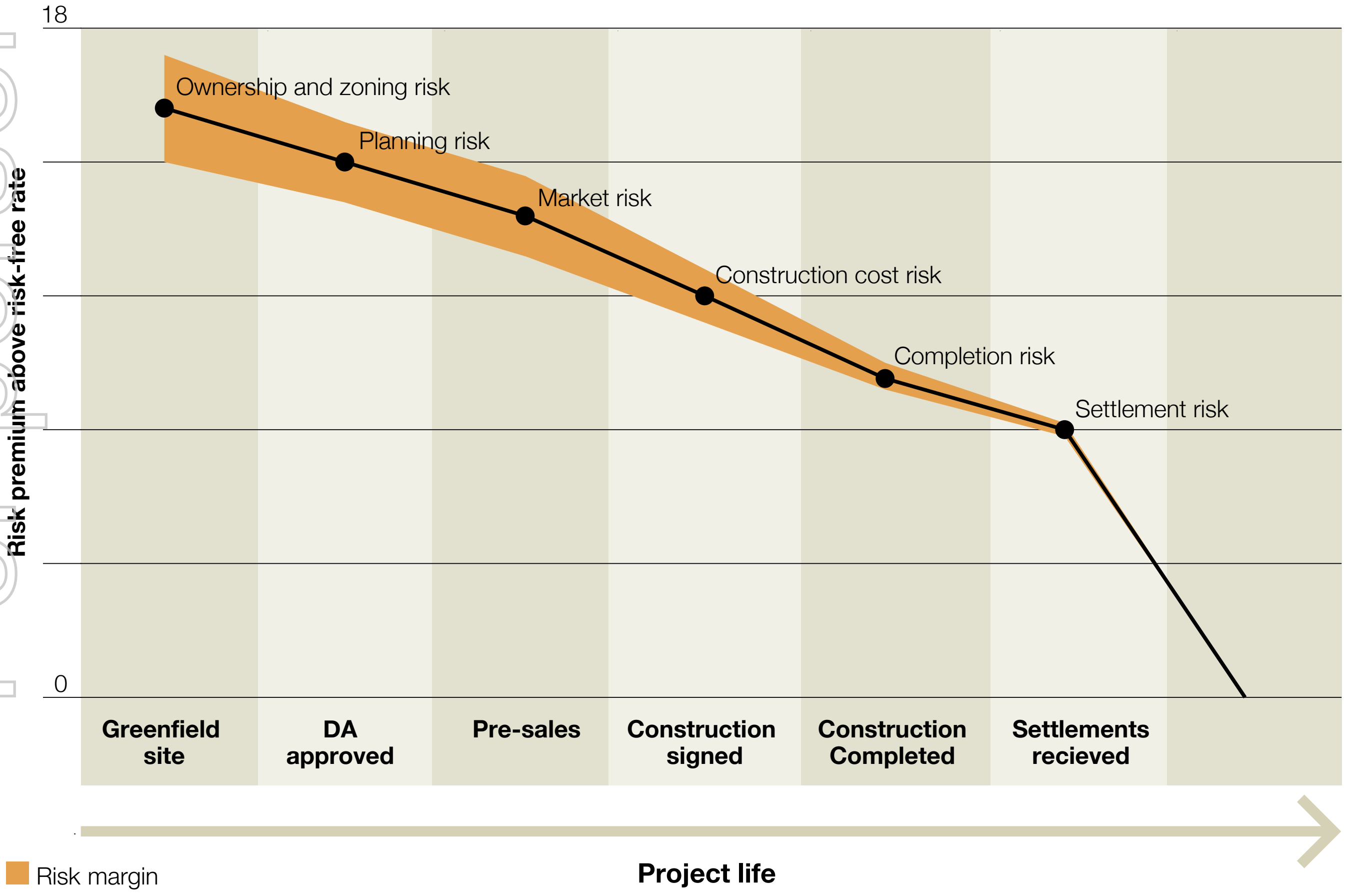
The graph below is a depiction of how we evaluate the appropriate indicative risk premium that should be added to the risk free rate when investing in property development

As the graph depicts as the project moves through its lifecycle, the risk premium required by the investor reduces as these major risks are minimised or eliminated.

Recent property collapses such as Westpoint, Fincorp, Estate Property (ACR) and Bridgecorp all resulted from exposure to projects at various stages of the development risk return graph. The reasons for these collapses are complex and varied but the consistent theme for each of these groups is that the risk premium investors received in the funds associated with these projects was not equal to the risk they were exposed to. Typically these investors received an 8 to 10% return on a note or debenture ('loan') which financed projects at a stage in the project lifecycle for which a 15-25% return should be expected. These loans usually ranked second in priority to secured mortgages over the properties – typically held by a bank. This means an investor receives no return until the bank has recovered all of its initial loan, plus interest.

Our advice to all investors when investing in developments is that it can be very rewarding and profitable. The key is to ensure the return you are forecasting to receive is equal to the risks that you are exposed to.

## Development Fund risk/return



# Open for investment

**Becton has three funds which are open for investment. If you would like to discuss these products further or if you would like a product disclosure statement please speak to your financial adviser, call 1800 182 257 or visit www.becton.com.au.**

## Featured fund: Becton Office Fund

The Becton Office Fund offers investors access to a quality, diversified, office property portfolio, designed to provide a stable income stream and capital growth potential.

Holding 13 properties with a total value of more than $375 million, it is one of Australia's most diversified direct office investment funds available to retail investors.

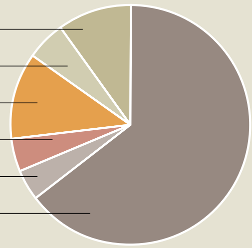
**The benefits of investing in the Becton Office Fund:**

- **Strong yielding investment:** distribution of 8.25% p.a. on August unit price.[1, 2]
- **Regular distributions:** a regular income stream through monthly distributions.
- **Strong diversification:** with more than 130 tenants in its 13 office properties, the Fund is well diversified in terms of tenant exposure. No single tenant represents more than 12% of the Fund's income.
- **Tenant quality:** More than half of the Fund's income is generated from government tenants or companies that are part of a publicly listed group. Major tenants include the Commonwealth Government, Telstra, New South Wales Government and Westpac.
- **Tax deferral:** income 100% tax deferred since April 2004.[2]
- **Limited liquidity:** Becton intends to make withdrawal offers to Investors in March and September each year.[3]
- **Minimum investment:** $10,000 – available to complying and self-managed superannuation funds.

The strategy of the Fund is to provide stable and tax deferred income, with solid annual capital growth. We will seek to acquire properties that will further diversify the Fund by location, asset, tenant and lease expiry. We also employ our active investment management approach to extract further value from the assets.

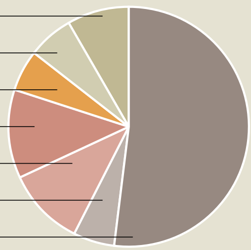
**Top five tenants**
**By gross income at 30 June 2007**

Dept of Immigration and Citizenship 9.8%
Northern Territory Government 5.4%
Telstra Corporation 11.6%
Westpac Banking Corporation 4.3%
Allianz Australia Services Pty Ltd 4.3%
Other tenants 64.5%



**Geographic diversification**
**By property value at 30 April 2007**

New Zealand 8.1
Queensland 6.3%
South Australia 5.5%
Victoria 11.8%
Australian Capital Territory 10.6%
Northern Territory 5.5%
New South Wales 52.1%



## Further products open for investment:

### Becton Diversified Property Fund

The Fund strategy is to invest in a diversified portfolio of office, retail and industrial property. It will also provide liquidity through cash and listed property trust exposure.

Since inception in March 2006 to the end of June 2007, the Fund has delivered an annualised return of 14.35% to investors.[2]

The fund was given an upper recommended rating by Lonsec Research in February 2006.

Please refer to page 10 for more information about the Becton Diversified Property Fund.

### Becton Industrial Fund

The Fund's investment strategy is to maximise financial returns to investors in the most efficient manner possible from industrial property. Becton believes that by improving the mix of properties, tenants and lease terms (by both acquisition and professional management), the Fund will further improve its ability to offer regular and secure income to investors with modest capital growth.

Please refer to page 12 for more information about the Becton Industrial Fund.

**1.** Please note this is based on past performance and is not a forecast. The 8.25% per annum is based on the July return to investors of 8.7 cents per unit at the 1 August price of $1.055 per unit. The unit price is subject to review each month. **2.** Please note historical performance is no indication of likely future performance. **3.** Capped at 5% of net assets per annum.

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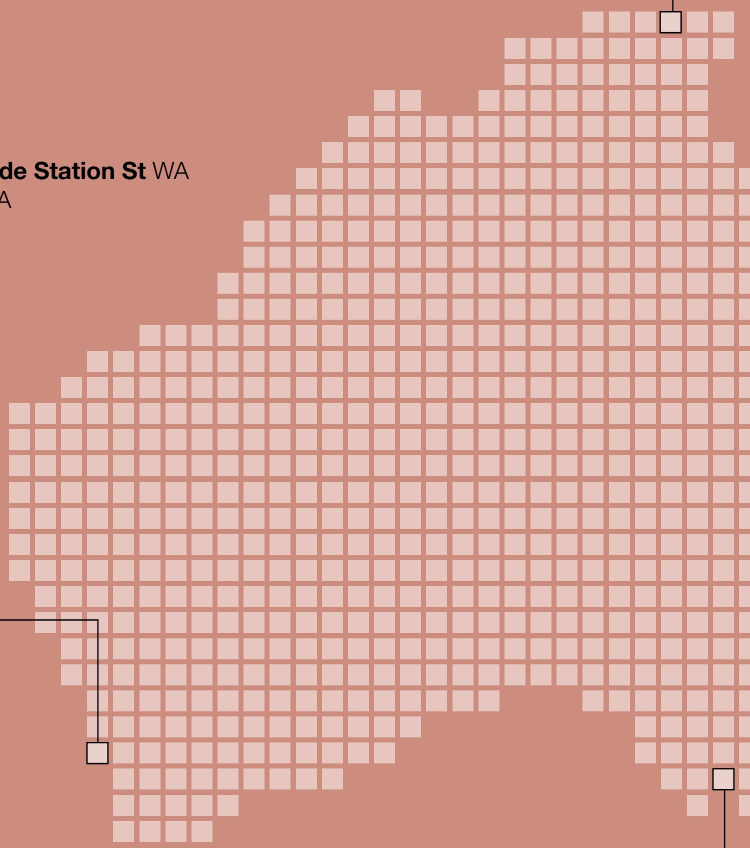
# Property locations

Becton Office Fund  Becton Industrial Fund  Becton Diversified Property Fund
Becton Retail Fund  Single property trusts

**875 Stuart Hwy** Holtze NT
**Cavenagh House, 38 Cavenagh St** Darwin NT
**Energy House, 18-20 Cavenagh St** Darwin NT



**Transport Building, 441 Murray St** Perth WA
**Subiaco Square Shopping Centre, Cnr Subiaco Square Pde Station St** WA
**Havelock House, 29 Havelock St & 2 Ord St** West Perth WA
**AFP Building 619 Murray St** West Perth WA
**26 Rigali Way** Wangara WA
**172 Kewdale Rd** Kewdale WA
**38 Vinnicombe Dr** Canning Vale WA
**32 Gauge Cct** Canning Vale WA
**28 Gauge Cct** Canning Vale WA
**39 Catalano Rd** Canning Vale WA
**310 Spearwood Av** Bibra Lake WA
**92 Robinson Av** Belmont WA
**245 Balcatta Rd** Balcatta WA
**Southlands Boulevarde, 45 Burrendah Ave** Willetton WA
**22 William St** Beckenham WA
**37 Dixon Rd** Rockingham WA
**AXA Centre, 111 St Georges Tce** Perth WA

**226 Greenhill Rd** Eastwood SA
**244 Eastern Pde** Gillman SA
**5-9 Woomera Av** Edinburgh SA
**Allianz House, 89 Pirie St** Adelaide SA
**128 McDouall Stuart Ave** Whyalla SA
**Veterans Affairs Building, 199 Glenfell St** Adelaide SA

**33-59 Clarinda Rd** South Oakleigh VIC
**8-14 Albert St** Preston VIC
**6 Albert St** Preston VIC
**7-31 Keys Rd** Moorabbin VIC
**13 Fiveways Blvd** Keysborough VIC
**3 Fairborne Way** Keysborough VIC
**2 Fairborne Way** Keysborough VIC
**1 Fairborne Way** Keysborough VIC
**102-128 Bridge Rd** Keysborough VIC
**40-48 Howleys Rd** Notting Hill VIC

**39-45 Wedgewood Rd** Hallam VIC
**12-13 Dansu Crt** Hallam VIC
**14-17 Dansu Crt** Hallam VIC
**422 Litle Collins St** Melbourne VIC
**303 Burwood Hwy** Burwood VIC
**580 St Kilda Rd** Melbourne VIC
**52 Old Geelong Rd** Hoppers Crossing VIC
**223-235 Barry Rd** Campbellfield VIC
**8A George St, 13-15 & 17-19 Wangara Rd** Sandringham VIC

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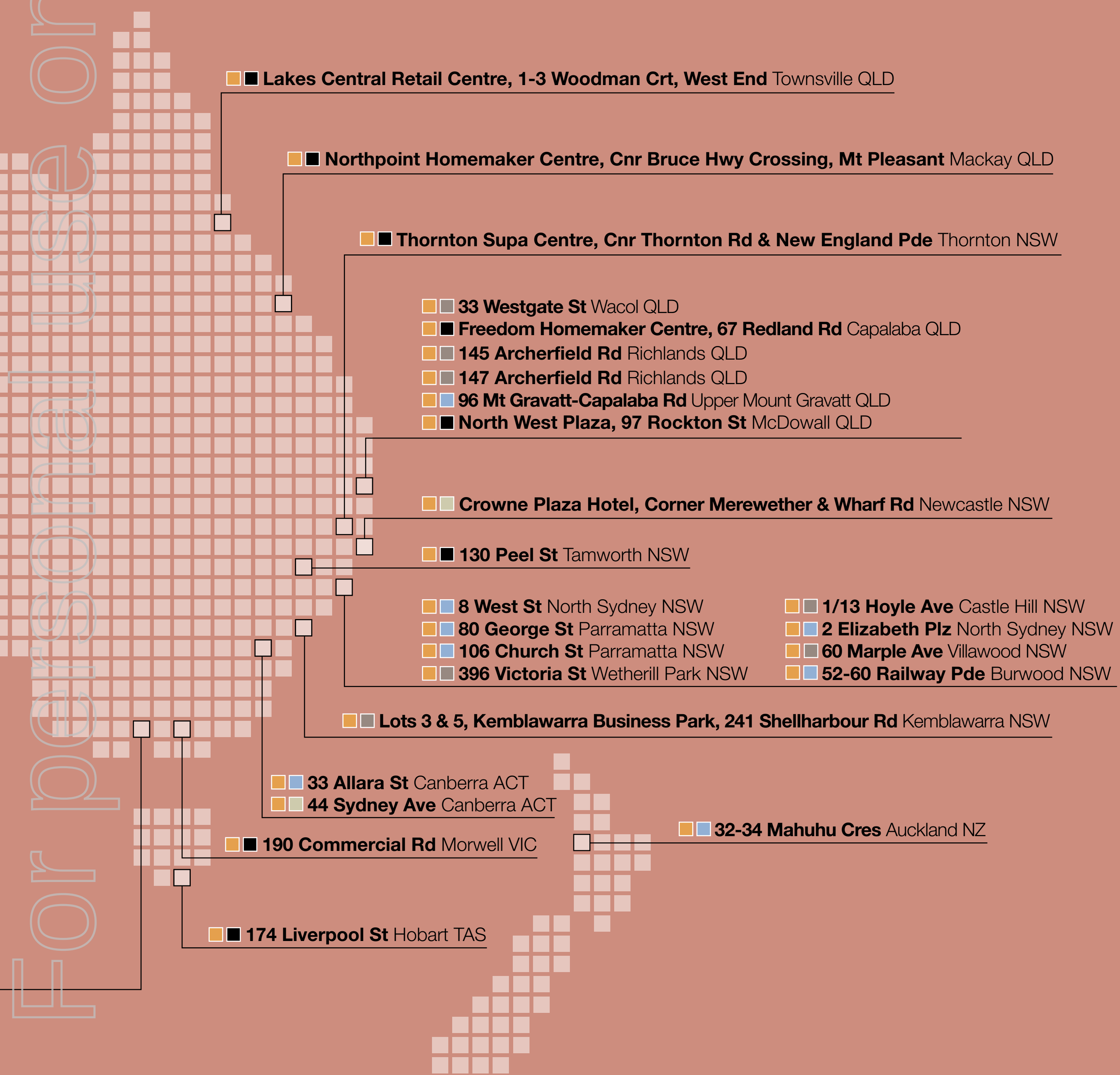


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# Becton Diversified Property Fund (BDPF)

**Key fund data as at 30 June 2007**

| | |
|---|---|
| **Fund start date** | April 2006 |
| **Fund end date** | Open |
| **Units on issue** | 183,431,056 |
| **Net Asset Value cum-distribution per Unit** | $1.1211 |
| **Net Asset Value ex-distribution per Unit** | $1.0991 |
| **Annualised distribution**[1] | 8.8 cents per unit |
| **Number of Properties (held indirectly)** | 69 |
| **Occupancy rate** | 93.7% |
| **Weighted Average Lease Expiry of Underlying direct property investments** | 3.2 years |

1. Based on 2.2 cents per unit distribution for the June 2007 quarter. Please note historical performance is no indication of likely future performance.

**Portfolio overview**

We are pleased to advise that in the Fund's first full financial year of operation, the Fund will post a total return of 18.26%.

The Fund has actively increased its allocation to industrial 13.37% to be in line with its target, and reduced its allocation to office (still overweight at 52.69%) and listed property trusts (LPTs) (5.43%).

The active approach of moving the through the long-term target ranges and taking strategic positioning enables the Fund to outperform. The immediate strategy for the Fund is to increase its allocation to retail as our view is that this asset class is moving into a better risk/return paradigm.

The current sector and geographical diversification of the Fund is summarised on the following page.

**Market outlook**

Please refer to the specific sector funds for market outlook information

Northwest Plaza Shopping Centre, McDowall QLD


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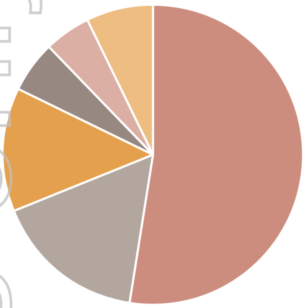
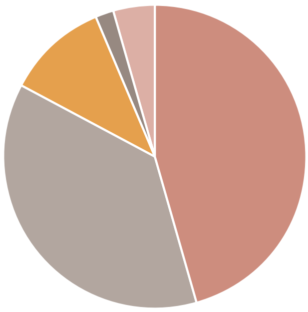


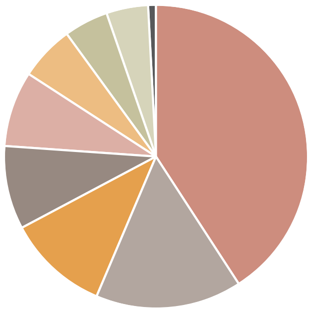
### Investment Category

| | |
|---|---|
| Office | 52.7% |
| Retail | 16.4% |
| Industrial | 13.4% |
| LPT | 5.4% |
| Cash | 4.9% |
| Other | 7.2% |



### Tenant Type (by NLA)

| | |
|---|---|
| Private | 43.9% |
| Public | 37.7% |
| Government | 13.1% |
| Rent Guarantee | 1.7% |
| Vacant | 3.7% |



### Geographic Diversification (by gross income)

| | |
|---|---|
| New South Wales | 45.3% |
| Victoria | 15.5% |
| Western Australia | 10.4% |
| Queensland | 9.7% |
| Australian Capital Territory | 9.2% |
| New Zealand | 9.2% |
| South Australia | 5.1% |
| Northern Territory | 4.6% |
| Tasmania | 0.2% |

8-14 Albert Street, Preston VIC

# Becton Industrial Fund (BIF)

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**Key fund data as at 30 June 2007**

| | |
|---|---|
| **Fund start date** | December 2002 |
| **Fund end date** | December 2012 |
| **Unit issue price** | $1.1600 |
| **Annualised distribution[1]** | 9.0 cents per unit |
| **Portfolio Purchase Price** | $293,257,513 |
| **Latest Portfolio Valuation** | $349,385,500 |
| **Loan-to-Valuation ratio** | 58.3% |
| **Number of Properties** | 35 |
| **Occupancy rate** | 95.3% |
| **Weighted Average Lease Expiry** | 4.3 years |

1. Please note historical performance is no indication of likely future performance.

## Portfolio overview

As the 2006/07 financial year has just finished, the Becton Industrial Fund comprises 35 properties, with a total portfolio value of $350 million. Eight properties, independently valued at 30 June 2007, delivered $14.9 million value uplift – a 16% increase since their previous valuations. In July 2007, monthly distributions were increased to 9.55 cents per unit per annum – a 6.1% increase.

Over the 2006/07 financial year, the Fund successfully completed $130 million of acquisitions comprising 14 properties. The new acquisitions in Victoria, Queensland and New South Wales improve geographic diversification. They have a variety of lease terms and added value potential. The new properties improve the income security through tenant diversification and provide further capital growth potential.

Lonsec has updated its research report on the Fund has maintained a Lower Recommended rating. The report provides an independent update on the Fund, including a favourable assessment in comparison to Lonsec's nominated peer group. For a copy of the report, please refer to the fund management section of the Becton website www.becton.com.au.

## Leasing activity

There has been positive progress on leasing at several properties.

At 12-13 Dansu Court, Hallam, Victoria, the local council has confirmed the planning permit does not prohibit Mitre 10 leasing the office component (3,026m$^2$) separately from the

245-247 Balcatta Road, Balcatta WA

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warehouse (8,103$m^2$). Lease documentation is being finalised for a new 10-year office lease to Mitre 10 upon surrender of their existing lease over the entire property in April 2008. Unit 3, 145 Archerfield Road, Richlands, Queensland, the only remaining vacancy at this property, has been leased to Hilton Manufacturing for three years at $105/$m^2$, as budgeted. Heads of agreement have been exchanged with a tenant for a three-year lease at Unit 3, 38 Westgate Street, Wacol, Queensland, (1,208$m^2$). The remaining three units are covered by a rent guarantee until December 2007. Finally, Auspac Textiles have exercised their five-year option at 8-14 Albert Street, Preston, Victoria, (4695$m^2$).

Unfortunately a few tenants will be leaving Fund's properties. Hellman Logistics vacated at 172 Kewdale Road, Kewdale, Western Australia, on 30 June. We have exchanged heads of agreement with a replacement tenant for a five-year term. Yates, a division of Orica, is likely to vacate 39-41 Catalano Road, Canning Vale, Western Australia, (4,068$m^2$) in November 2007 as they consolidate operations in Perth. Leasing agents have been appointed. Copperart remain in Spearwood Distribution Centre, Bibra Lake, Western Australia, on a monthly over holding basis. Discussions with potential replacement tenants continue.

## Recent acquisitions

Since the Autumn 2007 Review, the Becton Industrial Fund has settled on three acquisitions, totaling $24.8 million.

### 1/13 Hoyle Avenue, Castle Hill, NSW

The property is located in the heart of outer Western industrial precinct, approximately 30 km north-west of Sydney CBD and 11 km north of Parramatta. The area provides bulky goods retailing, car showrooms and small industrial unit developments. It is located near to Winsor Road, providing good access to the M2 and M7 motorways. The property is part of a strata development built in 1990 and has GLA of 2,640$m^2$. The warehouse has 6 meter clearance which is considered functional for a property of this size. The warehouse is complemented by a well-presented two level office building and ample parking. It is leased to Jirah Warehouse & Distribution Pty Ltd – the parent company of Gloria Jean's Coffee. The property was purchased for $4.14 million in May 2007.

### 223-235 Barry Road, Campbellfield, VIC

Campbellfield is an established industrial location 20km north of the Melbourne CBD with excellent road connections to metropolitan Melbourne and the Hume Hwy – the link between Melbourne and Sydney. Three adjoining sites have

Lot 7, 21 Gauge Circuit, Canning Vale WA

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a combined land area of 19,534m². Each site has separate buildings consisting of a two storey office with adjoining warehouse and/or factory facility. The buildings have a combined NLA of 11,018m². The property was acquired for $9.1 million investment in April 2007.

The tenant, Plexicor Australia, is an existing Becton Industrial Fund tenant in Adelaide. The acquisition was negotiated with Directors of Plexicor following their direct approach to Becton.

**40-48 Howleys Road, Notting Hill, VIC**
Notting Hill is a prime industrial location with excellent road networks. The M1 motorway and nearby Monash University have underpinned the location as Melbourne's premium commercial and high-tech precinct. It is served by Springvale Road, Blackburn Road and Ferntree Gully Road which all provide direct linkages to the M1. The premises are a high quality distribution facility. The Property's warehouse has excellent clearance heights of 9-12m. There is 1,289m² Office component with undercover car parking. The property is leased to Linfox Australia – an industry leader in the provision of warehousing, transporting and supply chain management. The property was purchased in May 2007 for $11.6 million.

### Debt facilities
The loan to valuation ratio of the Fund at 30 June 2007 was approximately 58.3%. Becton has adopted a prudent and conservative financial risk management policy and has hedged approximately 81% of the Fund's total debt for an average period of 3.7 years. This will ensure that any increase in interest rates in the short to medium term will not adversely affect the Fund's income or distributions.

### Market outlook
Supply of industrial accommodation across the five State capital cities continues to be strong. 2007 is likely to result in record levels of supply in many markets. The east coast markets dominated completions in 2007, with Sydney leading the way at 418,000m².

Tenant demand remains strong across all markets driven by the expanding transport and logistics sector and the booming economies of Queensland and Western Australia. Pre-lease activity continues to drive market take up. Amid fears of over supply, Melbourne has dominated take up, recording 90,000m² over Q2/2007. The majority of activity is centered on the south-east precinct and Derrimut due to the impending completion of East Link and the Deer Park bypass.

Rental growth has been strong in Perth and Brisbane however preliminary indications are that new land supply may ease some of the rental pressure in these markets. Soaring land prices and construction costs will continue to place upward pressure on these markets. Melbourne, Adelaide and Sydney rents have been relatively subdued, with the expectation of areas of Sydney where infrastructure developments and competing use pressure have generated higher rental growth.

Investor demand remains strong with yields tightening a further 25bps across most markets.

14-17 Dansu Court, Hallam VIC

# Becton Retail Fund (BRF)

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**Key fund data as at 30 June 2007**

| | |
|---|---|
| Fund start date | February 2004 |
| Fund end date | February 2014 |
| Unit issue price | $1.00 |
| Annualised distribution[1] | 8.5 cents per unit |
| Portfolio Purchase Price | $140,063,793 |
| Latest Portfolio Valuation | $157,203,793 |
| Loan-to-Valuation ratio | 56.1% |
| Number of Properties | 14 |
| Occupancy rate | 93.52% |
| Weighted Average Lease Expiry | 4.92 years |

1. Please note historical performance is no indication of likely future performance.

## Portfolio overview

**Sale of Booval asset**

The property was sold to Booval S.C Pty Ltd for $14.3 million achieving a 20% gain on the book value. The capital was used for debt reduction and reinvestment in capital works of other assets within the fund's portfolio. Becton may look to sell other bulky goods properties in the future to take advantage of the strong prices currently achievable.

**Lakes Central**

Joyce Mayne has executed a long term lease for 5,600m$^2$, comprising a 10-year lease for the 4,000m$^2$ retail and a five-year lease for the 1,600m$^2$ warehouse. This deal absorbs all the vacant area of the centre and provides a strong anchor from which to leverage good rent growth from existing and new tenants. The lessor works will commence mid-July with expected completion in September allowing Joyce Mayne to be ready for trading prior to Christmas. Curtain Wonderland has formally advised they will be vacating the centre in July however the income won't be impacted as they have an April 2010 lease expiry and will continue to pay rent. Although this is disappointing, they had committed to the Domain Central development some time before the Joyce Mayne negotiation was concluded. Given the lower level of rental being paid by this tenant it now presents an opportunity to secure a new tenant on a higher rental.

**Southlands Boulevarde**

The proactive approach of the leasing team over the last six months has seen positive results. Best and Less have agreed commercial terms to lease 865m$^2$ within the fashion precinct. This is a great result and should assist in attracting other key retailers to the centre. This negotiation will require current tenant Video Ezy to relocate at the end of their lease in September to an external tenancy. Assuming we can agree terms with Video Ezy, this will be a good result as we retain a key tenant and absorb partially vacant area.

Other new tenants include nail bar Nail Sensation who expect to be trading by August. Healthy Life is currently fitting out and expects to be open in the coming weeks. The lessor works of the fruit and vegetable tenancy has received council approval and the preferred builder selected. Works will be completed to allow the tenant to fit out and begin trading prior to Christmas this year.

Becton have agreed to a proposed scope of works with Hoyts and the commencement date has been deferred until October so as not to impact on their peak trading period. The concept plans of the food court upgrade have been priced at approximately $1.6 million ($800,000 is the 50% share of Becton Retail Fund) and subject to internal/external approvals we expect to commence these prior to Christmas.

Bunnings Warehouse, Booval QLD

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The environmental report has been completed for the proposed Woolworths Plus Petrol outlet. The results were encouraging and the key recommendation was to complete further tests in September when the water table is at its highest level. Woolworths has been advised and continue to show strong interest in the location.

The focus of the remaining assets within the fund is on leasing the balance of the vacancies in North West Plaza (two vacancies) and the Freedom Homemaker Centre (one vacancy) on which we expect to announce positive news in the coming months. Becton are also looking to commence the 2007/08 capital expenditure program which includes a partial roof replacement at North West Plaza.

## Recent acquisitions

**Coonabarabran Shopping Centre, Dalgarno Street, Coonabarabran, NSW**

The transaction involved acquiring the land and funding the development costs through the construction period, therefore providing stamp duty savings to the fund. Stage one, successfully opened on 23 June 2007, comprises a 2,180m$^2$ Woolworths/ Woolworths Liquor. Stage two, due for completion in the coming months, will comprise a further 670m$^2$ of specialty area under a 12-month rent guarantee. The property will have an on-completion value of $6.85 million and provide an initial yield of 7.75%. The property provides exposure to the strong lease covenant of Woolworths and has significant depreciation benefits.

**Dolphin Court, 11 Boree Street, Ulladulla, NSW**

Constructed in 1998 and comprising a 3,386m$^2$ Coles/ Liquorland and three specialty shops of 438m$^2$, the fund has acquired a partial interest in the property for $6.5 million at an initial yield of 6.5%. The property provides exposure to a strong performing Coles and a solid lease covenant.

Both the Coonabarabran and Ulladulla acquisitions improve the diversification of the fund improving the weighting to New South Wales and increasing the weighted average lease expiry (WALE) beyond five years. The acquisitions also fit the future fund strategy of introducing supermarket based centre's into a fund that is currently heavily weighted to bulky goods

## Debt facilities

The loan to valuation ratio of the Fund at 30 June 2007 was approximately 56.1%. Becton has adopted a prudent and conservative financial risk management philosophy and has hedged approximately 83% of the Fund's total debt for an average period of 3.7 years. This will ensure that any increase in interest rates in the short to medium term will not adversely affect the Fund's income or distributions.

## Market outlook

National retail turnover growth from May 2006 to 2007 was 6.73% (source: ABS). More specifically in regards to the sectors that the fund has the highest exposure we have observed a moderation of growth in the food sector and a slowing since December 2006 in household goods. Negative impacts to household spending such as an interest rate rise or increase in petrol prices will only further accentuate this situation.

Western Australia and Queensland continue to remain strong performing states over the past 12 months although we do expect to experience a level of moderation on past growth. From an investment perspective yields on retail assets continue to tighten due to the increasing flow of funds available for investment in property and the limited availability of quality retail property. While it is difficult to envisage this continuing (especially if a further interest rate rise occurs) the focus needs to be on active management in extracting value rather than rely on continuing yield compression.

Below: Lakes Central Retail Centre, Townsville QLD Right: Southlands Boulevard Shopping Centre, Willetton WA


# Becton Office Fund (BOF)

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**Key fund data as at 30 June 2007**

| | |
|---|---|
| Fund start date | April 2004 |
| Fund end date | April 2014 |
| Unit issue price | $1.0550 |
| Annualised distribution[1] | 8.7 cents per unit |
| Portfolio Purchase Price | $356,349,185 |
| Latest Portfolio Valuation | $374,908,588 |
| Senior Debt (Loan-to-Valuation ratio) | 59% |
| Number of Properties | 13 |
| Occupancy rate | 94.65% |
| Weighted Average Lease Expiry | 2.8 years |

1. Please note historical performance is no indication of likely future performance.

**Portfolio overview**

The last quarter has been one of consolidation for the Becton Office Fund, stabilising the management of new acquisitions including 52 Railway Avenue, Burwood, 2 Elizabeth Plaza, North Sydney and 32 Mahuhu Crescent, Auckland.

**38 Cavenagh Street, Darwin, NT**

The rent review with the Northern Territory Government has been completed. This was contested by the Government and went to determination — only recently issued in May 2007. The rent was determined at $310/m$^2$ on the Ground Level, and $270/m$^2$ for the upper office levels, with car bays at $150/bay. Although the determined rent was less than the initial rental notice, it was more than the original budget of $265/m$^2$.

**2 Elizabeth Plaza, North Sydney, NSW**

The rental determination regarding the car parking was handed down. The determining valuer assessed the current rental as above market, determining a rental figure of $588,750. Under the terms of the lease, any reduction in rent is capped at 20% and as a result, the new rental at the property will be $642,735. This is marginally under our budget number of $650,000.

**8 West Street, North Sydney, NSW**

Leasing agents were advised in early May that areas occupied by Estate Constructions (leased till 30 June 2011) may become available, and were asked to begin canvassing the space. At the time there were concerns over Australian Capital Reserve, the finance arm of Estate. Since then, the tenant has gone into administration and it now appears 1,235.9m$^2$, predominantly on Levels 1 and 2, will become vacant. Bank guarantees in terms of both rental and capital works required by the vendor (the property was purchased from Estate) have been cashed and a claim for debt submitted. The vendor capital works continue under the watchful eye of the managing agent who is acting as the project manager. New Zealand Natural Ice Cream on Level 3 (573.3m$^2$) will not renew their lease, due to expire on 31 December 2007 and new tenants are currently being sought. The fire services and wet area upgrades (at the vendor's cost) continue.

**33 Allara Street Canberra, ACT**

The capital works on the services upgrade is continuing.

**580 St Kilda Road, Melbourne, VIC**

Works for the upgrade of the foyer are currently being tendered. This project will improve the presentation of the foyer and assist in all future leasing at the building.

303 Burwood Highway, Burwood VIC

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## Leasing activity

| Property | Lessor | Lease details | Lease v budget |
|---|---|---|---|
| **2 Elizabeth Plaza NSW** | I-Touch | New four-year lease on Level 4; 509m² at a start rent of $370/m² net (lease signed) | To budget |
| | GE Betz Pty Limited (Infrastructure division of GE) | New five-year lease of all of Level 8; $400/m² net (terms agreed) | $25/m² above budget |
| **96 Mt Gravatt Capalaba Road QLD** | Queensland Government | Lease renewal for five years on Ground Floor; 848m² at $340/m² (lease signed) | $20/m² above budget |
| | Queensland Government | New five-year lease of Level 2 vacant space; 438m² at $350/m² gross (lease signed) | $30/m² above budget |
| **West Tower on Railway Parade Burwood NSW** | Bankwest | New five-year lease on Level 7 (West Tower); 484m² at $360/m² gross (lease signed) | $10/m² above budget |
| **580 St Kilda Road Melbourne VIC** | Kramatic | New six-year lease in subterranean space at $230/m² net (lease signed) | To budget |
| | Serena Software | Lease extension of 12 months; 325m² on Level 8 at $255/m² (lease signed) | $25/m² above budget |
| | Axis Consultants | Lease renewal for three years; 270m² on Level 5 at $245/m² net (lease signed) | $15/m² above budget |

Waverley 33 Allara Street, Canberra ACT

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**422 Little Collins Street, Melbourne, VIC**
An architect has been appointed to review the current entry and retail areas.

**106 Church Street, Parramatta, NSW**
Capital works required under the Department of Housing lease are currently being priced. This work involves the upgrade of toilets throughout the building.

### Valuations

Three properties in the portfolio were revalued as at 30 June 2007, with valuation uplift in all.

The property at 580 St Kilda Road increased from $25.725 million to $26.75 million in value, an increase of almost 4%. This was on the back of yield compression in the St Kilda Road office market. There was marginal valuation uplift in our other revaluations including 80 George Street, Parramatta increasing from $33.125 million to $33.5 million; 106 Church Street, Parramatta increasing from $15.125 million to $15.15 million, and 38 Cavenagh Street, Darwin increasing from $16 million to $16.1 million.

### Debt facilities

The loan to valuation ratio of the Fund at 30 June 2007 was approximately 58.8%. During the last three months, the Manager has put in place arrangements to diversify the Fund's senior debt financing sources with the likely issue of $169 million of senior debt into the Commercial Mortgage Backed Securities ("CMBS") market. This will reduce the Fund's reliance on bank debt as a sole source of senior debt and provide the Fund with bank debt capacity to finance further acquisitions.

Becton has adopted a prudent and conservative financial risk management philosophy and has hedged approximately 93% of the Fund's total debt for an average period of 4.7 years. This will ensure that any increase in interest rates in the short to medium term will not adversely affect the Fund's income or distributions.

### Market outlook

While development applications and construction continues to increase, additional new supply over the last quarter was still minimal in most markets, with the exception of Canberra, where three projects of 52,000m$^2$ (100% pre-committed) were completed. The downward trend in vacancy has continued, with nearly all markets tightening further over the last three months. Melbourne's vacancy rate could be below 6% for the first time since 1989, while Brisbane and Perth edged even lower from their already record low levels. The result of this reduction in vacancy has been significant rental growth in Brisbane and Perth over the last quarter. Good rental growth was recorded in most other markets reflecting the general tightening of vacancy rates. Melbourne saw a notable pick-up in rental pressure in the quarter in line with its now relatively tight vacancy rate.

80 George Street, Parramatta NSW

# Becton Developments Income Fund (BDIF)

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### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | April 2003 |
| **Fund end date** | Open |
| **Annualised distribution** | 9.5% |
| **Total loans approved** | Nil |
| **Total loans drawn** | Nil |
| **Loans repaid between March-June 2007** | $33,298,949 |

The investment is supported by a Bank of Scotland debt facility of $40 million currently not drawn.

### Recent loans repaid: April 2007 – June 2007

| Loan | Facility repaid |
|---|---|
| **Woolworths Supermarket, Coonabarabran, NSW** | $4,000,000 |
| **Elizabeth Plaza, North Sydney, NSW** | $9,187,618 |
| **Burwood Towers, Burwood, NSW** | $8,022,005 |
| **580 St Kilda Rd, Melbourne, VIC** | $8,089,324 |
| **Bensons Notes, VIC** | $2,000,000 |
| **Walter Morley Loan, WA** | $2,000,000 |

### Debt facilities

The Bank of Scotland facility was repaid $7 million and the balance is currently not drawn.

### Market outlook

The Fund continues to explore further development opportunities however the current development environment is proving difficult to source competitive transactions. The mezzanine finance for acquisitions of the property funds may continue to benefit the Fund in the immediate future. However unprecedented capital raisings for the Becton Office Fund in Q3 has enabled all BDIF loans to be repaid. The Fund has taken a $10 million stake in Becton Diversified Property Fund to reduce its overweight cash position.

580 St Kilda Road, Melbourne VIC


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# Becton Subiaco Square Shopping Centre Property Trust

### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | December 2000 |
| **Fund end date** | December 2010 |
| **Units on Issue** | 8,400,000 |
| **Annualised distribution** | 8.0 cents per unit |
| **Property Purchase Price** | $18,250,000 |
| **Latest Property Valuation** | $24,500,000 |
| **Loan-to-Valuation ratio** | 53.5% |
| **Occupancy rate** | 95.0% |
| **Weighted Average Lease Expiry** | 9.7 years |

### Property overview

Leasing remains the primary focus for the property as we continue to focus on the three vacant tenancies at the rear of the centre. The leasing team has specifically targeted service operators such as doctors and other related specialists but has had limited success thus far. Interest has been shown by boutique gym operators, who we believe could have success in this location and will enhance the service offering at the centre.

New retailers the Telstra Shop, Moisteanne and Cins Takeaway Bakery are now open for trade and have all significantly improved the presentation of the centre. D Nail Bar will no longer be opening as it became apparent the prospective lessee would have face challenges opening this, their first retail business. We are committed to introducing a nail bar to the centre as it will compliment the existing uses.

ANZ Bank has expressed firm interest in locating an ATM within the centre which will further improve the service offer and introduce new income. Centre management is currently looking at further new income opportunities in the form of centre signage.

Our architect has completed initial concept plans for the mall area that generally involve providing improved sightlines by removing the existing planters and awnings. These works have been priced at $340,000 and when completed will have a positive impact on this area in conjunction with the new shop fit outs. The next stage is to discuss the plans with council prior to seeking their formal approval.

### Market outlook

Western Australia retail turnover growth from May 2006 to 2007 was 11.29% compared to the national figure of 6.73% (source ABS). The state retail turnover growth has moderated over the recent months of April/May albeit from a high base however we still expect WA to remain one of the strong performing states as a major beneficiary of the ongoing resource boom with the only concern an overheating of the local housing market. From an investment perspective yields on retail assets continue to tighten due to the increasing flow of funds available for investment in property and the limited availability of quality retail property. When comparing Western Australia investment yields to the balance of Australia we believe there is room for further tightening especially given the strong population growth and strong performance of the local economy.

# Becton 111 St George's Terrace Property Trust

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**Key fund data as at 30 June 2007**

| | |
|---|---|
| **Fund start date** | January 2002 |
| **Fund end date** | January 2012 |
| **Units on Issue** | 24,400,000 |
| **Annualised distribution** | 10.0 cents per unit |
| **Property Purchase Price** | $42,500,000 |
| **Latest Property Valuation** | $91,750,000 |
| **Loan-to-Valuation ratio** | 28.1% |
| **Occupancy rate** | 100.0% |
| **Weighted Average Lease Expiry** | 4.0 years |

**Property overview**

The upgrade of the wet areas of the building has neared completion with works coming to an end on Levels 13, 14, 15 and 17. The total budgeted cost for these works was $2.8 million.

Plans for the renovation and upgrade of the ground floor foyer and external entry areas are being modified with the aim being to maximize both aesthetic of the foyer, and the potential returns from any additional retail areas. As outlined, the rationale for the works is to capitalise on the central location of the building, lift the assets profile and modernize the entry areas to the building. Planning on the renovation will continue through 2007 with works expected to commence sometime in 2008.

**Market outlook**

The Perth office market is benefiting directly from the current strength of the Western Australian economy, fuelled by the international resource boom. White collar employment growth slowed over 2006, a reflection of the labour shortage in Western Australia, however vacancy rates have fallen to record breaking low's as tenants demand additional space.

During 2006, leasing activity surpassed the level experienced in the last three years, as a result vacancy levels declined as any excess stock was absorbed. This increase in activity coupled with a shortage of stock has resulted in significant rental growth over the past 12 months, particularly in Prime and A Grade buildings. Net effective and net face rents are virtually the same and incentives in all grades of the office market are approaching zero.

Overall vacancy for the Perth CBD was at 0.9% in January 2007, the lowest ever recorded by the PCA. Tenants will be forced to look outside the CBD for accommodation until new development comes on line.

Source: Savills

# Becton Transport Building Property Trust

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### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | October 2001 |
| **Fund end date** | October 2011 |
| **Units on Issue** | 5,600,000 |
| **Annualised distribution** | 10.8 cents per unit |
| **Property Purchase Price** | $9,600,000 |
| **Latest Property Valuation** | $25,700,000 |
| **Loan-to-Valuation ratio** | 28.0% |
| **Occupancy rate** | 100.0% |
| **Weighted Average Lease Expiry** | 9.4 years |

### Property overview

A builder has been appointed to undertake the upgrade to the bathrooms, carpet replacement, an upgrade of emergency lighting and exit signs and the installation of water back flow prevention devices. This work constitutes the Lessor works identified during lease negotiations. The total cost of these works (excluding the cash incentive provided) is expected to be approximately $1 million, and is to be debt funded. This work is to be completed by December 2007. The property was revalued as at 30 June 2007 to $25.7 million. This is an increase of almost 26% over the previous valuation of $20.4 million. The increase is a reflection in the strength of the Perth office market, the tightening in investment yields, and the future potential for rental growth.

### Market outlook

The Perth office market is benefiting directly from the current strength of the Western Australian economy, fuelled by the international resource boom. 'White collar' employment growth slowed over 2006, a reflection of the labour shortage in Western Australia, however vacancy rates have fallen to record breaking low's as tenants demand additional space.

During 2006 leasing activity surpassed the level experienced in the last three years, as a result vacancy levels declined as any excess stock was absorbed. This increase in activity coupled with a shortage of stock has resulted in significant rental growth over the past 12 months, particularly in Prime and A Grade buildings. Net effective and net face rents are virtually the same and incentives in all grades of the office market are approaching zero.

Overall vacancy for the Perth CBD was at 0.9% in January 2007, the lowest ever recorded by the PCA. Tenants will be forced to look outside the CBD for accommodation until new development comes on line.

Source: Savills


# Becton AFP Building, West Perth Syndicate & Trust

### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | April 2000 |
| **Fund end date** | December 2007 |
| **Units on Issue (syndicate)** | 5,340,000 |
| **Units on Issue (trust)** | 1,155,000 |
| **Annualised distribution** | 10.9 cents per unit |
| **Property Purchase Price** | $9,250,000 |
| **Latest Property Valuation** | $20,500,000 |
| **Loan-to-Valuation ratio** | 26.6% |
| **Occupancy rate** | 100.0% |
| **Weighted Average Lease Expiry** | 4.7 years |

### Portfolio overview

The market rent for the new lease to the Commonwealth of Australia, as at 1 March 2007, has been agreed by the appointed valuers at a rental of $445/m$^2$ gross. Car bays have been agreed at $190 per bay per month. The budget for the office areas was $410/m$^2$ gross. This deal amounts to an extra $138,250 per annum above the original budgeted figure. The property was revalued as at 30 June 2007 to $20.5 million. This is an increase of over 46% over the previous valuation of $14.0 million. The increase is a reflection of both the strength of the Perth office market and the impact of the new lease and market review with the Commonwealth of Australia.

With the Trust due to expire on 31 December 2007, investors can expect to receive a Notice of Meeting and Explanatory Memorandum with our recommendation during September. The meeting will be held in October.

### Market outlook

West Perth vacancies fell in January 2007 to 1.1%, from 3.75% 12 months previously. Vacancies are now contained mainly in Grade C and Grade D buildings, with Grade A and Grade B buildings both having vacancies less than 1%. In the year to December 2006, approximately 25,963m$^2$ of office space was leased in the west Perth office precinct. This is down on the 27,212m$^2$ leased in the previous year. Net absorption of office accommodation was approximately 11,271m$^2$ in the 12 months to January 2007. It is expected that net absorption will remain positive in the next 6-12 months; however the quantum of net absorption will be limited by the amount of space available.

Despite limited leasing activity, rents in west Perth have increased significantly over the past 12 months. Average Grade A rents are currently around $350/m$^2$ net, with rents as high as $370/m$^2$ net being achieved. Many deals are now being conducted with limited or no incentives, as the market becomes increasingly competitive for tenants to secure space. In 2006 there were a number of smaller refurbishments in west Perth market which have since been completed. Currently there are a number of buildings under construction, which should bring to the market approximately 13,500m$^2$ during 2007 along with, a further 17,600m$^2$ which is mooted. Yields have firmed at both ends of the market over the past 12 months. Average Grade A yields are now between 6.25% and 7.5%, down from 6.75% and 7.75% 12 months ago.

Source: Savills




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# Becton Newcastle Habourfront Hotel Trust

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### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | February 2003 |
| **Fund end date** | February 2010 |
| **Units on Issue** | 20,000,000 |
| **Annualised distribution** | 9.5 cents per unit |
| **Property Purchase Price** | $40,750,000 |
| **Latest Property Valuation** | $45,495,000 |
| **Loan-to-Valuation ratio** | 42.2% |
| **Occupancy rate** | 100.0% |
| **Weighted Average Lease Expiry** | 10.8 years |

### Property overview

The hotel performance for 2006 resulted in an above-budget performance rent income for the Trust. A special distribution of 2.0 cents per unit will be included in June 2007 distribution. The total distribution rate for the 2006/07 financial year is 11.50 cents per unit.

In July 2007, the Trust's distribution rate increased to 10.50 cents per unit per annum. Subject to the hotel's performance being in line with budget, we expect the Trust will be in a position to fund a special distribution of 1.5 cents per unit at the end of the 2007/08 financial year.

In 2007 the Hotel continues to perform well. Year-to-date figures at 30 June 2007 show the occupancy is 78.6% (compared to 79.2% last year) and revenue per available room of $181.3 per night (compared to $166.4 last year). As indicated by these figures good growth in room rates has driven the strong performance.

The recent storms in Newcastle saw many hotel staff remain on site for more than 20 hours. This effort protected the Hotel from damage, reducing the repair costs and enabling the Hotel to not only remain operational but maximise revenue throughout this time. A big thank you was extended to Hotel General Manager Noel McMahon and his team on behalf of investors.

### Market outlook

In 2006, the Australian hotel market delivered high occupancy levels, gains in room rates and Revpar compared to its global competitors. This strong sentiment has been driven by record international arrivals, the robust Australian economy and increases in domestic travel. With land values and constructions costs currently at record high levels in Australia, there is limited hotel supply on the horizon which should fuel strong occupancy levels & Revpar for the next 2-3 years.

With the above in mind, hotel investor sentiment remains positive as both domestic and offshore investors seek to place capital into a maturing sector, the potential for upside (future increases in Revpar) and the ability to obtain trophy assets. Yields in the sector have reached all time lows, resulting in average yields being in the range of 6.75-7%.

With strong demand, limited short term supply, increases in occupancy/Revpar and low yields it is anticipated that the Australian Hotel Market will remain buoyant and robust for the next 3-5 years.

# Becton Southlands Boulevarde Property Trust

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### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | May 2001 |
| **Fund end date** | May 2009 |
| **Units on Issue** | 14,843,750 |
| **Annualised distribution** | 8.00 cents per unit |
| **Property Purchase Price** | $29,500,000 |
| **Latest Property Valuation** | $41,250,000 |
| **Loan-to-Valuation ratio** | 45.6% |
| **Occupancy rate** | 94.6% |
| **Weighted Average Lease Expiry** | 3.9 years |

### Property overview

The proactive approach of the leasing team over the last six months has seen some positive results.

Best and Less have agreed commercial terms to lease 865m$^2$ within the fashion precinct. This is a great result and should assist in attracting other key retailers to the centre. This negotiation will require sitting tenant Video Ezy to relocate at the end of their lease in September to an external tenancy. Assuming we can agree terms with Video Ezy this will be a good result as we retain a key tenant and absorb partially vacant area. Other new tenants include nail bar Nail Sensation who expect to be trading by August. Healthy Life is currently fitting out and expects to be open in the coming weeks.

The lessor works of the fruit and vegetable tenancy has received council approval and the preferred builder selected. Works will be completed to allow the tenant to fit out and begin trading prior to Christmas. We have agreed a proposed scope of works with Hoyts however the commencement date has been deferred until October so as not to impact on their peak trading period. The concept plans of the food court upgrade have been priced at approximately $1.6 million ($800,000 is the 50% share of Becton Southlands Boulevarde Property Trust) and subject to internal/external approvals we expect to commence these prior to Christmas.

The environmental report has been completed for the proposed Woolworths Plus Petrol. The results were encouraging however the key recommendation was to complete further tests in September when the water table is at its highest level. Woolworths has been advised and continue to show strong interest in the location.

### Market outlook

Western Australia retail turnover growth from May 2006 to 2007 was 11.29% compared to the National figure of 6.73% (source ABS). The State retail turnover growth has moderated over the recent months of April/May albeit from a high base however we still expect Western Australia to remain one of the strong performing states as a major beneficiary of the ongoing resource boom with the only concern an overheating of the local housing market. From an investment perspective, yields on retail assets continue to tighten due to the increasing flow of funds available for investment in property and the limited availability of quality retail property. When comparing Western Australia investment yields to the balance of Australia, we believe there is room for further tightening especially given the strong population growth and strong performance of the local economy.

# Becton Energy House Property Trust

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### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | March 2002 |
| **Fund end date** | April 2012 |
| **Units on Issue** | 8,800,000 |
| **Annualised distribution** | 5.0 cents per unit |
| **Property Purchase Price** | $14,250,000 |
| **Latest Property Valuation** | $18,800,000 |
| **Debt (Loan-to-Valuation ratio)** | 41.5% |
| **Occupancy rate** | 55.9% |
| **Weighted Average Lease Expiry** | 7.9 years |

### Property overview

The lessor works upgrade continues with completion of the ceiling replacement, lighting upgrade and carpet replacement. The new mechanical plant has been ordered with delivery expected at the end of July. Upgrade of the building's electrical switchboards will be required as part of the mechanical works and this has extended the program for this item to August. The equipment for the lift upgrade has been ordered with expected delivery now in August which has extended the completion date to November. The lift works require each lift to be decommissioned for six weeks at a time whilst leaving the remaining two lifts operational for the building occupants. The government tenant remains on track to complete their fit out by August with the finished floors having a positive impact on the building.

The leasing of the vacant floor remains a priority, with Knight Frank Darwin proactively seeking new tenants looking for space within the Darwin market. Conoco Phillips, and international integrated energy company, is looking at options to establish an office within Darwin, requiring up to 2000m². A lease proposal has been presented to the tenant on our behalf by Knight Frank and we await their response.

Discussions have also been had with the Northern Territory Property Management regarding any potential space requirements by the government within the building but currently, there is not a requirement.

Despite initial interest from the Australian Bureau of Statistics and Energy Resources of Australia for the upper levels, there has been no further leasing progress on these floors. Recent leasing deals have been completed with the Darwin Regional Indigenous Employment Service and Tax Refund Centre Pty Ltd for tenancies on the ground floor and sitting tenant Chiyoda Sekiyu Australia Pty Ltd are seeking an extension to their lease. National Australia Bank has now vacated their ground floor tenancy and made good. The bank moved to the new China Town development.

It is still our intention to write to investors regarding the early sale of the building. Although this was proposed to occur in June it has been delayed until September so the completion date of the works could be confirmed.

### Market outlook

The Northern Territory economy continues to perform strongly on the back of the resources market with most economic indicators well above the Australian average. The Darwin commercial property market is performing solidly generally in line with the national market. The office vacancy rate at the upper A grade or premium end of the market continues to tighten with limited space available. This has a measured impact on Energy House which is considered a low A or B grade building. Future opportunities for further leasing of the property may be presented by an increasing number of private tenants moving into the Darwin market however the uncertainty will remain.

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# Becton Havelock House Property Trust

## Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | July 2002 |
| **Fund end date** | July 2012 |
| **Units on Issue** | 9,200,000 |
| **Annualised distribution** | 9.3 cents per unit |
| **Property Purchase Price** | $18,700,000 |
| **Latest Property Valuation** | $24,500,000 |
| **Loan-to-Valuation ratio** | 47.8% |
| **Occupancy rate** | 100.0% |
| **Weighted Average Lease Expiry** | 10.1 years |

## Portfolio overview

The property was revalued as at 30 June 2007 to $24.5 million. This is an increase of nearly 10% above the previous valuation of $22.3 million. The increase is a reflection of the strength of the west-Perth office market resulting in increased rents and firming investment yields.

## Market outlook

West Perth vacancies fell in January 2007 to 1.1%, from 3.75% the 12 months previously. Vacancies are now contained mainly in Grade C and Grade D buildings, with Grade A and Grade B buildings both having vacancies of less than 1%. In the year to December 2006, approximately 25,963m² of office space was leased in the west Perth office precinct. This is down on the 27,212m² leased in the previous year. Net absorption of office accommodation was approximately 11,271m² in the 12 months to January 2007. It is expected that net absorption will remain positive in the next 6-12 months; however the quantum of net absorption will be limited by the amount of space available.

Despite limited leasing activity, rents in West Perth have increased significantly over the past 12 months. Average Grade A rents are currently around $350/m² net, with rents as high as $370/m² net being achieved. Many deals are now being conducted with limited or no incentives, as the market becomes increasingly competitive for tenants to secure space. In 2006 there were a number of smaller refurbishments in west Perth market which have since been completed. Currently there are a number of buildings under construction, which should bring to the market approximately 13,500m² during 2007 along with, a further 17,600m² which is mooted. Yields have firmed at both ends of the market over the past 12 months. Average Grade A yields are now between 6.25% and 7.5%, down from 6.75% and 7.75% 12 months ago.

Source: Savills

# Becton Canberra Trust

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### Key fund data as at 30 June 2007

| | |
|---|---|
| Fund start date | September 2003 |
| Fund end date | August 2008 |
| Units on Issue | 20,500,000 |
| Annualised distribution | 10.25 cents per unit |
| Property Purchase Price | $41,500,000 |
| Latest Property Valuation | $49,200,000 |
| Debt (Loan-to-Valuation ratio) | 46.7% |
| Occupancy rate | 100.0% |
| Weighted Average Lease Expiry | 3.9 years |

### Property overview

Following strong a strong performance from the Trust in 2006/07, investors will receive a special distribution of 1.25 cents per unit in July, resulting in 11.50 cents per unit annual distribution for the year. From July 2007, the Trust's monthly distribution will increase to 12.50 cents per unit per annum. The 30 June 2007 independent valuation is $49.2 million – a $3.2 million or 7% increase from 30 June 2006. The valuation increase was driven by further tightening of yields in the market place. Becton continues to work with property manager and tenants in preparation for future lease expiries at the Property.

### Market outlook

With a vacancy factor of only 1.8% in January 2007 the Canberra office market is one of the tightest office markets in the country. Despite these latest figures from the Property Council of Australia, the vacancy figure could potentially blow out to circa 11% by the end of 2008 with approximately 100,000m$^2$ of government leases expiring in 2007/2008. Government tenants are having a greater focus on environmental performance creating a challenge for older building stock while providing opportunity for these assets with good environmental rating.

# Becton Veterans' Affairs Building Property Trust

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### Key fund data as at 30 June 2007

| | |
|---|---|
| **Fund start date** | June 2000 |
| **Fund end date** | October 2007 |
| **Units on Issue** | 3,825,000 |
| **Annualised distribution** | 8.25 cents per unit |
| **Property Purchase Price** | $9,000,000 |
| **Latest Property Valuation** | $11,000,000 |
| **Debt (Loan-to-Valuation ratio)** | 69.1% |
| **Occupancy rate** | 88.5% |
| **Weighted Average Lease Expiry** | 4.0 years |

### Property overview

The property and Trust performed to expectation in 2006/07 delivering 8.25 cents per unit annual distribution. From the July 2007 the Trust's monthly distribution be at 8.30 cents per annum. Capital works continue and Schiavello the appointed builder are on track for completion by 31 August. We have exchanged heads of agreement for a tenant to lease the 423.5$m^2$ vacancy on level 3 for five years from 1 October 2007 for $260/$m^2$. The building refurbishment was a key factor in attracting the tenant to the property. With the Trust due to expire on 31 October 2007, investors will be offered the opportunity to vote on the future of the Trust. Investors can expect to receive a Notice of Meeting, and Explanatory Memorandum with our recommendation, during September. The meeting will be held in early October.

### Market outlook

With significant supply of 150,000$m^2$ over 2006-2008 period, rents are expected to stagnate over the next 12-18 months as the supply is absorbed by the market. Both B and C grade buildings will need to be refurbished as the 'flight to quality' is likely to continue. Despite this supply, vacancies remain low in Adelaide CBD Core/Frame at 6.3% in January 2007, down from 7.3% in July 2006. The fringe market is down to only 3% in January 2007 with limited mooted supply. Vacancies in the CBD/Frame are expected to rise over the next 12 months as supply becomes available. The fringe is expected to maintain a low vacancy rate. Tenant demand remains strong, especially by the finance, insurance and government sectors, which provided 70% of the 118,710$m^2$ of new leases in 2006. In 2006, the total net absorption was 40,481$m^2$ for the total Adelaide market. Yields have firmed over the last 12 months to range between 6.50% and 8.50% in Adelaide's core and 7.50% to 8.50% in Adelaide's fringe and suburban market.

# Becton 226 Greenhill Road Property Trust

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**Key fund data as at 30 June 2007**

| | |
|---|---|
| Fund start date | June 2003 |
| Fund end date | June 2011 |
| Units on Issue | 10,250,000 |
| Annualised distribution | 8.8 cents per unit |
| Property Purchase Price | $16,950,000 |
| Latest Property Valuation | $21,000,000 |
| Debt (Loan-to-Valuation ratio) | 46.7% |
| Occupancy rate | 100.0% |
| Weighted Average Lease Expiry | 1.2 years |

**Property overview**

The property and Trust performed to expectation in 2006/07 delivering 8.80 cents per unit annual distribution. From July 2007, the Trust's monthly distribution will increase to 9.40 cents per unit per annum. The 30 June 2007 independent valuation is $21 million – a $1.7 million or 8% increase from 30 June 2006. This represents a 24% growth since inception of the Trust. The valuation increase was driven by further tightening of yields in the market place. Power company, AGL, occupy 86% of building Net Lettable Area. Their lease expires in April 2008, with a three year option. The option can be exercised by the tenant until December 2007. The outcome of this lease expiry will have significant impact of Trust performance from April 2008 onwards. Following redundancies at AGL in late 2006, we do not have any direction on their intentions. We can not deal with other tenants of the building with any certainty until we become aware of AGL's intentions. We are in constant contact with AGL.

**Market outlook**

With significant supply of 150,000m² over 2006-2008, period rents are expected to stagnate over the next 12-18 months as supply is absorbed by the market. Both B and C grade buildings will need to be refurbished as the 'flight to quality' is likely to continue. Despite this, supply vacancies remain low in Adelaide CBD Core/Frame at 6.3% in January 2007, down from 7.3% in July 2006. The fringe market is down to only 3% in January 2007 with limited mooted supply. Vacancies in the CBD/Frame are expected to rise over the next 12 months as supply becomes available, however the fringe is expected to maintain a low vacancy rate. Tenant demand remains strong, especially by the finance, insurance and government sectors, who provide 70% of the 118,710m² of new leases in 2006. In 2006, the total net absorption was 40,481m² for the total Adelaide market. Yields have firmed over the last 12 months to range between 6.50% and 8.50% in Adelaide's core and 7.50% to 8.50% in Adelaide's fringe and suburban market.

# Becton Property Group update

## Retirement living

Becton's retirement living business serves the over 60s retirement living market and its core capabilities are site acquisition, purpose built design and services management.

Becton believes that retirement village ownership is a customer service business. Success in the industry requires careful understanding of the specific needs of the target customer group, and how to profitably serve those needs. Becton's competitive advantage lies in our ability to provide a fully integrated range of services through combining the property capabilities across the whole of the Becton group with our specialised retirement capabilities.

Becton recently acquired greenfield development sites for its retirement business in Beaumaris, Mt. Martha and Caulfield in Victoria, Vale in Western Australia, and Mackay and Hervey Bay in Queensland.

These acquisitions are part of Becton's plan to create high quality retirement villages that contribute strong recurring earnings for Becton. Since establishing its first village in 1999, Becton has developed specific 'retirement' expertise in product creation, services management and sales & marketing. Our strategy is to create significant national scale in the retirement sector through integrating this knowledge with Becton's land acquisition, development, construction and asset management capabilities.

The new acquisitions add to Becton's retirement portfolio, which includes developments underway in Hawthorn (Vic), Waverley (Vic) and Truganina (Vic). Becton already owns four villages: Brighton (Vic), Malvern (Vic), Dee Why (NSW) and Bunbury (WA).

Since establishing its first village in 1999, Becton has developed specific 'retirement' expertise in product creation, services management and sales & marketing

### Retirement living fast facts

| Dwellings under management | Dwellings in development | Expected total end real estate value of villages and new developments (on completion) approx | Total dwellings |
|---|---|---|---|
| 858 | 1,147 | $860m | 2,005 |

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Clockwise from top: Waverley Country Club interior; Classic Residences Brighton resident's library; Menzies Malvern, Malvern VIC


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**Becton Investment Management Limited**

ABN 62 090 939 192 AFS Licence No 223739
Incorporating Becton Properties Limited
ABN 11 082 352 083 AFS Licence No 234570

6 / 470 St Kilda Road
Melbourne. Vic. 3004
T. +61 3 9832 9000
F. +61 3 9832 9068

**Customer Service**
**1800 182 257**
**www.becton.com.au**

Classic Residences Brighton

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