



Folkestone

# INVESTOR REVIEW

HY17



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Folkestone's real estate expertise spans across the residential (land and apartment), non-residential and real estate related social infrastructure sectors. We own, manage and develop real estate for the benefit of our shareholders and investors in our funds.



# HY17 HIGHLIGHTS

Folkestone continued to execute on its strategy of growing its funds management platform and its on-balance sheet exposure to quality residential and non-residential developments.

**\$3.2m**

NPAT<sup>1</sup>

▲ 6.0%

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**2.2c**

EPS<sup>2</sup>

5.6%

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**\$1.2bn**

FUM

▲ 12.6%

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**1<sup>ST</sup>**

**SENIORS LIVING  
FUND LAUNCHED**

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<sup>1</sup> Statutory net profit for the six months to 31 December 2016.

<sup>2</sup> Statutory earnings per share for the six months to 31 December 2016.

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT

Folkestone delivered a positive result in FY17 driven by a focused execution of our strategy to deliver real estate wealth solutions by growing our funds management platform and undertaking quality residential and non-residential developments on our balance sheet.



ONLY ABOUT CHILDREN, CAMBERWELL, VIC - AN ASSET OF FOLKESTONE EDUCATION TRUST



SYDNEY OLYMPIC PARK, NSW - AN ASSET OF FOLKESTONE REAL ESTATE INCOME FUND AT SYDNEY OLYMPIC PARK



AMBER, WOLLERT, VIC - A JOINT VENTURE BETWEEN FOLKESTONE WOLLERT DEVELOPMENT FUND AND ID LAND



MILLERS JUNCTION BUSINESS - ALTONA NORTH, VIC FOLKESTONE AND WILMAC'S DEVELOPMENT

We are pleased to have generated a statutory net profit after tax (NPAT) of \$3.2m for the six months to 31 December 2016 (HY17), an increase of 6.0 per cent over HY16. Normalised NPAT attributable to Folkestone for HY17 was \$3.2 million, a 2.3 per cent increase compared to HY16<sup>1</sup>. This represents a statutory EPS and normalised EPS of 2.2 cents (HY16: 2.0 cents and 2.2 cents respectively).

Folkestone's net asset value (NAV) was 96.7 cents per share at 31 December 2016, down from 98.9 cents per share at 30 June 2016. Net tangible asset (NTA) backing was 91.6 cents per share at 31 December 2016 compared with 93.6 cents per share at 30 June 2016. The primary reason for the decline in NAV and NTA per share in the current reporting period was a 4.9 per cent decline in the value of Folkestone's 12.3 per cent holding in the Folkestone Education Trust which, as a listed entity, is marked to market at each reporting date<sup>2</sup>.

## FUNDS MANAGEMENT

Folkestone's Funds Management division is a specialist real estate funds manager for private clients and select institutional investors. Folkestone increased its funds under management from \$1.1 billion as at 30 June 2016 to \$1.2 billion as at 31 December 2016.

Total funds management revenue in HY17 was \$7.5 million down 0.3 per cent on HY16 (HY16 was boosted by a \$1.6 million performance fee from the West Ryde Development Fund).

Key features of the HY17 result are:

- a 20.6 per cent increase in recurring fee income and cost recoveries to \$3.7 million;
- a 138.5 per cent increase in transaction fees to \$1.4 million inclusive of a \$0.6 million acquisition fee in respect of the Folkestone Seniors Living Fund No.1;
- a 1.5 per cent increase in distributions from FLK's co-investment in the ASX listed Folkestone Education Trust to \$2.2 million; and
- no performance fees were generated in HY17.

**"Folkestone's result for the first half of FY17 reflects positive contributions from both our funds management platform and our on-balance sheet activities"**

### Greg Paramor, Managing Director

In July 2016, Folkestone announced that it had established the Folkestone Seniors Living Fund No.1 to acquire Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore. The acquisition of Watermark Castle Cove comprised a 100 per cent interest in 50 existing independent living apartments (ILAs) and 8 ILAs under construction which will be paid for on completion (including their sale) and a 100 per cent interest in adjacent land for development of an additional 21 ILAs on terms whereby part of the consideration is contingent on completion and sale of the ILAs and the development is undertaken in a 50/50 joint venture with the Watermark Partnership.

Folkestone underwrote \$19.7 million of the initial \$25.7 million Fund Offer by way of a short term loan to the Fund with the capital

raising closing oversubscribed in September 2016. Folkestone has co-invested \$2.5 million (10.0 per cent) in the Fund. The Fund has a target fund raising of up to \$60 million to enable it to acquire further assets consistent with the investment mandate of the Fund. The Fund has a target forecast equity IRR of 15.0 per cent per annum (pre-tax, net of fees) on drawn equity.

Our entry in to the seniors living sector is an extension of our strategy to expand our real estate related social infrastructure platform. Australia's ageing demographics and growing recognition of seniors living communities as a lifestyle choice will underpin demand in this sector going forward.

The largest fund managed by Folkestone, the ASX listed Folkestone Education Trust, with gross assets of \$829.1 million, continued its strong performance with a statutory profit of \$69.1 million, an increase of 16.1 per cent from \$59.5 million in HY16. FET continued its active management of its portfolio with the acquisition of two new centres and six development sites for new centres, five year options were exercised at 39 centres and market rent reviews were completed at 64 centres, resulting in an average increase of 4.9 per cent over the prior year's rental. FET's distribution for the half year was 7.1 cents per unit, up 6.0 per cent on the previous year.

During the current reporting period, Folkestone generated \$1.6 million profit contribution before tax from our investment in FET comprising:

- \$3.4 million in fees and cost recoveries charged in accordance with FET's constitution;
- \$2.2 million in trust distributions received; and
- an unrealised loss of \$4.0 million on our unit-holding in FET as at 31 December 2016 given the unit price of FET fell from \$2.67 at 30 June 2016 to \$2.54 at 31 December 2016<sup>2</sup>. The unrealised loss of \$4.0 million for the current reporting period partially offsets the cumulative unrealised gains of \$23.7 million on Folkestone's unit-holding in FET which have been recognised in prior reporting periods. As at 31 December 2016, the total unrealised gain Folkestone has generated on its unitholding in FET, is \$19.7 million.

The Folkestone Truganina Development Fund is undertaking, in a 80/20 joint venture with ID\_Land, the development of a circa 718 lot residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. The joint venture has continued to see strong pre-sale activity at Elements, with 590 sales at 31 December 2016, representing approximately 86 per cent of total lots and 1.7 times the number forecast in the feasibility.

As at 31 December 2016, Stages 1-6 and 8 of Elements were completed and a total of 178 lots settled. The mezzanine loan provided by the Folkestone Truganina Development Fund, drawn to \$4.1m at 30 June 2016, was fully repaid from sales proceeds during the current period. The joint venture settled the bulk land settlement in December 2016, which was 100 per cent debt funded. Folkestone has co-invested \$3.4 million (18.76 per cent) in the Fund. Due to the acceleration of the project, the Fund's current forecast equity IRR has increased from 18 per cent to 21.5 per cent per annum (pre-tax, net of fees) on drawn equity.

1. The normalised figures are non-statutory amounts and in Folkestone's view better reflect the underlying operating performance of the business. Normalised net profit after tax is arrived at after adjusting the Group's statutory NPAT in HY16 relating to \$0.24 million in due diligence costs associated with transactions not proceeding and in HY17 relating to \$0.09 million in establishment costs from the implementation of an internal property management team.

2. FET's Unit price at 30 June 2016 was \$2.67 and at 31 December 2016 was \$2.54. As at 27 February 2017, FET's Unit price was \$2.74.

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT CONT.

## DIRECT INVESTMENTS - DEVELOPMENTS

During HY17, Folkestone continued to execute its strategy for existing on-balance sheet developments and also secured a new development opportunity that can be sold down to a Folkestone managed fund.

Folkestone's development division generated a net development profit of \$2.8 million up 8.1 per cent on HY16 (HY16 was boosted by a \$3.3 million share of development profits pre-tax, net of fund administration costs from the West Ryde Development Fund as Folkestone held a 50 per cent interest in the Fund).

Key features of the HY17 results are:

- a positive contribution in net development profits of \$2.1 million from Millers Junction Business (via Folkestone's 51.0 per cent interest in the joint venture), Officer Northside (via Folkestone's 50.0 per cent interest in the joint venture) and Truganina (via Folkestone's 18.8 per cent interest in the Folkestone Truganina Development Fund);
- \$0.7 million in preferred equity interest, up 84.2 per cent on HY16 from five projects (Officer Northside, South Dural, Hornsby, Wollert and Green Square) and other sundry loans;
- continued strong sales and settlements in respect of our residential land projects and enterprise park projects in Melbourne; and
- the completion of the Potter's Grove, Officer residential land subdivision project.

**"We continue to secure strong pre-sales across our active residential and enterprise park developments"**

**Greg Paramor, Managing Director**

We continue to secure strong pre-sales across our active residential and enterprise park developments. In particular, our residential land projects continue to perform well. This is exemplified by the strong pre-sales recorded at Folkestone's newest residential development, Amber at Wollert in Melbourne's northern growth corridor, which launched in November 2016. The project, being undertaken in joint venture with ID\_Land, was launched in November 2016 and as at 31 December 2016, 65 sales had been achieved, with a further 50 sales achieved to date. Our two residential developments in Officer, in Melbourne's south-east are now sold out, while our residential land subdivision at Truganina in Melbourne's western growth corridor has captured almost twice the budgeted sales.

The following is a brief update on the progress of Folkestone's Direct Investments during HY17:

### Millers Junction Business, Altona North

In September 2014, the Company announced it had entered into a 50/50 joint venture with Wilmac Properties to develop 70 strata style office/warehouse units in Stage 2 of Millers Junction in Altona North. As at 31 December 2016, all but 3 of the 70 units had been pre-sold.

As at 31 December 2016, Stages 1-2 comprising 45 units had been completed of which 28 had settled with the remaining 17 units to be settled in the March 2017 quarter. Construction of the final 25 units in the project commenced in August 2016 and are forecast to be completed in the June 2017 quarter with settlements to follow shortly thereafter.

During the current reporting period, Folkestone recognised a \$1.1 million share of development profits in respect of this project. As at the reporting date, Folkestone's funds invested in this project were \$3.1 million.

### Millers Junction Stage 3, Altona North

In May 2015, Folkestone announced it had entered into an option agreement with BWP Trust and Bunnings Group Limited to purchase the former Bunnings site adjacent to Millers Junction. Subject to planning approval, the 3.4 hectare parcel will be consolidated with Folkestone's existing Stage 3 land holding of 4.4 hectares, to create a substantial development opportunity which will include traditional retail, large format retail and social infrastructure investments.

Folkestone's option agreement with BWP Trust and Bunnings Group Limited (BGL) over a site adjacent to Millers Junction has recently expired but negotiations continue with both groups to secure a new option on more favourable terms. An application lodged by Folkestone to rezone the site and undertake a retail development to include a Woolworths supermarket remains active, pending the option renegotiation.

During the current reporting period, a further \$0.2 million part reversal of the prior period impairment of the Stage 3 land was recognised and a \$0.2 million rental expense in respect of the sub-lease payments to BGL was incurred. As at the reporting date, Folkestone has invested \$10.4 million in this project.

### Industria, Knoxfield

In May 2015, Folkestone entered into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse/retail units in Knoxfield, Victoria with an anticipated end value of \$30 million.

As at 31 December 2016, 19 out of 20 units released to market in Stage 1 had been pre-sold with settlements scheduled in the June 2017 quarter. A further 12 units had been pre-sold in Stage 2 out of a total of 24 units released to market.

As at the reporting date, Folkestone has invested \$1.9 million in this project.

### Industria, Nunawading

In May 2016, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop an enterprise business park in Nunawading, Victoria with an anticipated end value of \$42.5 million.

The land was acquired on deferred terms and settlement of the land occurred in September 2016. Planning consent for the development was received in the December 2016 quarter, including a modification to the original design by allowing for a three storey office building with 9 strata office spaces, in addition to 71 units and a café. Since launching Stage 1 to market in HY17, a total of 24 units plus the cafe and the proposed three storey office building has also been pre-sold. Construction of Stage 1 is forecast to commence in the March 2017 quarter.

As at the reporting date, Folkestone has invested \$2.8 million in this project.

### Potters Grove, Officer

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID\_Land to develop a 240 lot land sub-division.

During the current reporting period, the last remaining lot settled and as at the reporting date, Folkestone's remaining funds invested in this project was \$0.1 million.

### Northside, Officer

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID Land, Northside Officer to develop a 146 lot land sub-division diagonally opposite Folkestone and ID\_Land's Potters Grove development. The zoned site was purchased on deferred terms. Settlement of the first tranche of land (3.6 hectares) took place in August 2015 and the remaining tranche (4.7 hectares) was settled in August 2016.

All lots have been pre-sold with Stages 1-3 having reached practical completion as at 31 December 2016, at which time a total of 70 lots had settled. Stages 4 and 5 construction is forecast to commence in the March 2017 quarter with project completion anticipated to occur in late 2017.

During the current reporting period, Folkestone recognised a \$1.0 million share of development profits and \$0.1 million preferred equity interest income in respect of this project. As at the reporting date, Folkestone has invested \$1.7 million in this project.

### Wollert, Victoria

In December 2015, Folkestone announced that it had entered into a fourth joint venture with ID\_Land, to develop a 48 hectare residential master-planned community in Wollert in Melbourne's rapidly growing Northern Growth Corridor. Wollert is located in the City of Whittlesea, approximately 25 kilometres north of the Melbourne CBD and is ideally positioned between Craigieburn and Mernda.

The project, known as Amber, is located within the Wollert Precinct Structure Plan (PSP) which received Government approval on 10 February 2017. Amber will encompass circa 550 residential lots, with an on completion value of approximately \$137 million. The land is being acquired on a staged settlement basis with a series of payments required between December 2015 and 2019. Now that PSP approval has been obtained, Folkestone and ID\_Land intends to sell down in March/April 2017 part of their investment in the project to third party investors in a Folkestone managed fund, consistent with the process for the Folkestone Truganina Development Fund.

A total of 98 lots were released to market during the current reporting period, with contracts being conditional on PSP and local council approvals. A total of 65 lots had been pre-sold as at 31 December 2016. A further stage has now been released and an additional 50 lots have been pre-sold as at 27 February 2017, taking total lot pre-sales to 115 lots, or 21 per cent of the forecast total lots in the estate.

During the current reporting period, Folkestone recognised \$0.1 million preferred equity interest income in respect of this project. As at the reporting date, Folkestone has invested \$3.9 million in this project.

### Hornsby, New South Wales

In December 2014, the Company announced that it had entered into a 50/50 joint venture with the Lyon Group Australia, a leading Sydney developer, to develop a strategically located, mixed use site opposite Hornsby railway station in Sydney's north-west.

Following the settlement of a further property on 1 February 2017, the joint venture has now acquired two sites totalling 949 square metres which are currently under short term lease agreements, whilst the JV progresses its master planning activities. In addition to the two land parcels acquired, the JV has contracted to acquire a further 348 square metre site adjoining its existing landholding with settlement due in June 2017. A further option agreement over a commercial building is in place (1,929 square metres) and due for settlement in the December 2017 quarter after which time the joint venture will have amalgamated a total landholding exceeding 3,200 square metres.

During the current reporting period, Folkestone recognised \$0.1 million preferred equity interest income in respect of this project. As at the reporting date, Folkestone has \$5.5 million invested in this project.

### South Dural, New South Wales

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group Australia, to acquire development rights over 60 hectares of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. South Dural is strategically located between the rapidly growing suburbs of Glenhaven and the established areas of Castle Hill and Cherrybrook in Sydney's north-west.

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT CONT.

The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working with Hornsby Shire Council and the NSW State Government to have approximately 240 hectares (including the land over which it has development rights) rezoned.

During the current reporting period, Folkestone recognised \$0.2 million preferred equity interest income in respect of this project. As at the reporting date, Folkestone has invested \$7.6 million in this project.

## Green Square, NSW

In November 2016, Folkestone announced that it had entered into a 50/50 joint venture with Furnished Property to develop a 142 room hotel at Green Square, Sydney. The site, at 18 O'Riordan Street, Alexandria, is located within the \$13 billion, 278 hectare Green Square Urban Regeneration Area ('GSURA') and is strategically located approximately 100 metres from the Green Square Train Station. The Sydney Airport Domestic and International Terminals are two and three stops respectively to the south, with Central Station one stop to the north. Green Square is one of the most significant urban transformation programs under construction in Australia, revitalising the industrial edge of Sydney's inner south into a vibrant global village.

Folkestone intends to launch the Folkestone Green Square Hotel Fund in June 2017 quarter, to raise circa \$22.5 million of third party capital, which together with construction finance, will fund the development of the hotel on a fund-through basis reducing Folkestone and Furnished Property's funds employed to develop the hotel. The Fund will own the hotel long-term.

As at the reporting date, Folkestone has invested \$7.2 million in this project.

## The Ranges, Karratha

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities. To date, 73 villas have been built and are operational. During the current reporting period, construction commenced on a food and beverage facility which will compliment the existing offer and make The Ranges more appealing to customers, particularly business travellers to the Pilbara

As at the reporting date, Folkestone has invested \$3.5 million in this project.

## OUTLOOK

Folkestone is well placed to continue to build sustainable growth across its funds management and development divisions.

Folkestone is on track to complete capital raisings in the second half of FY17 for two new funds being the Folkestone Wollert Development Fund and the Folkestone Green Square Hotel Fund. In addition, Folkestone is in due diligence on a number of opportunities that will either be acquired on balance sheet and sold down at a later date to Folkestone funds or acquired directly by new funds established by Folkestone.

Folkestone's low gearing, its cash on hand and the recycling of capital from projects that are earmarked to be sold down to funds or are nearing completion, provides the Group with significant flexibility to continue to execute on its strategy.

We will continue to look for investment opportunities across the residential, non-residential and social infrastructure sectors where the projects offer the potential for attractive risk-adjusted returns, can be acquired and/or developed using efficient capital structures (i.e. staged land payments or deferred settlement terms), and where appropriate, undertaken in joint venture with quality partners and held in Folkestone managed funds.

We confirm that it is our current intention to pay a fully franked dividend of 2.625 cents per share in respect of FY17, an increase of 5.0 per cent on the FY16 dividend assuming no material change in market conditions.

**Garry Sladden**  
Non-Executive Chairman

**Greg Paramor AO**  
Managing Director

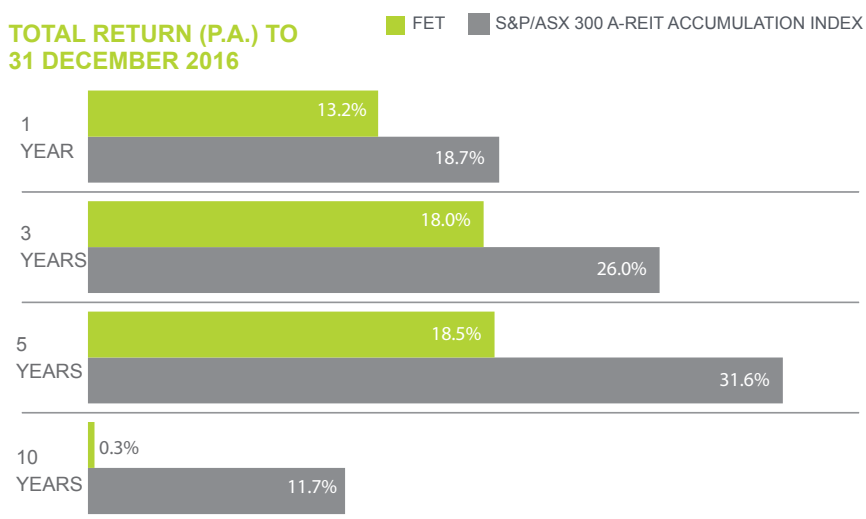


# LISTED A-REIT

## FOLKESTONE EDUCATION TRUST (ASX CODE: FET)

INCOME STATEMENT SUMMARY	DEC15	DEC 16	VAR. %
Distributable Income (\$m)	16.6	18.7	10.8
Distribution (cpu)	6.7	7.1	6.0
BALANCE SHEET AS AT	DEC 16	JUNE 16	VAR. %
Total Assets (\$m)	829.1	753.6	10.0
Investment Properties (\$m)	794.5	719.5	10.4
Borrowings (\$m)	227.8	200.4	13.7
Net Assets (\$m)	585.2	531.8	10.0
Gearing <sup>1</sup> (%)	27.4	26.6	0.8
NTA per Unit (\$)	2.35	2.14	9.8

### TOTAL RETURN (P.A.) TO 31 DECEMBER 2016



The ASX listed Folkestone Education Trust (ASX: FET) is the leading provider of early learning accommodation with 401 early learning centres in Australia and New Zealand and one medical centre in Australia.

FET provided a total return of 18.7 per cent for the year to 31 December 2016, outperforming the S&P/ASX 300 A-REIT Accumulation Index ("Index") return of 13.2 per cent for the same period. FET has also outperformed the Index over three years at 26.0 per cent per annum (v 18.0 per cent per annum), five years at 31.6 per cent per annum (v 18.5 per cent per annum) and ten years at 11.7 per cent per annum (v 0.3 per cent per annum)

At 30 June 2016, FET owned 8 development sites. During the half year,

FET settled 6 more development sites with an aggregate completion value of \$28.6 million.

The current development pipeline of 22 sites has a forecast upon completion value of \$121.8 million and is expected to add approximately \$8.4 million per annum of net rental income to FET.

FET continues to target new opportunities based on our strong understanding of the market, with the key focus on selecting high quality real estate supported by sound early learning demand and supply fundamentals.

Folkestone owns 12.3 percent of FET, and generated \$1.6 million profit contribution before tax from its investment in HY17.

Portfolio as at  
31 December 2016

VALUE OF INVESTMENT  
PROPERTIES

**\$795M**

FY17 DISTRIBUTABLE  
INCOME

**\$18.7M**

NTA PER UNIT

**\$2.35**

AVERAGE PROPERTY  
YIELD

**6.9%**

DEVELOPMENT  
PIPELINE

**\$121.8M**

OCCUPANCY RATE

**99.5%**

WEIGHTED AVERAGE  
LEASE EXPIRY  
(BY INCOME)

**8.5YRS**

NUMBER OF TENANTS

**29**

FY17 DISTRIBUTION  
FORECAST

**14.2CPU**

1. Gearing is calculated by borrowings / total assets.

# PRIVATE FUNDS

## FOLKESTONE REAL ESTATE INCOME FUND AT SYDNEY OLYMPIC PARK



### FUND TOTAL RETURN IN CY16

# 30.4%

Type	Unlisted
Sector	Office
Location	Sydney Olympic Park
No of Properties	1
Gross Assets (\$m)	38.1
Occupancy (%)	100
FY17 Forecast Annualised Distribution (%)	9.25
Fund Expires	Dec 2017

The Fund owns 7 Murray Rose Avenue, Sydney Olympic Park, a 5,931 square metre commercial office building, completed in December 2012, with ground floor retail and basement car parking.

The office space is 100 per cent leased to Thales Australia on a ten year lease term commencing 1 December 2012. The five retail tenancies on the ground floor are leased to a range of food and service providers.

As at 31 December 2016, the building was 100 per cent occupied with an weighted average lease expiry of 5.2 years by income.

The Fund generated a total return of 30.4 per cent in the year to 31 December 2016.

## FOLKESTONE REAL ESTATE INCOME FUND AT ALTONA NORTH



### FUND TOTAL RETURN IN CY16

# 29.9%

Type	Unlisted
Sector	Large Format Retail
Location	Altona North, Victoria
No of Properties	1
Gross Assets (\$m)	40.0
Occupancy (%)	100
FY17 Forecast Annualised Distribution (%)	8.75
Fund Expires	Nov 2020

The Fund owns a large format retail centre, known as Millers Junction Home, which is anchored by Bunnings and includes Officeworks, JB Hi-Fi Home, Repco, PETstock, petVET and Pitt Stop Cafe. Millers Junction Home was developed by Folkestone on behalf of the Fund and opened in September 2014.

As at 31 December 2016, 100 per cent of the Centre was leased with a weighted average lease expiry by income of 8.4 years and 9.0 years by area. Millers Junction Home continues to perform well, based on the positive feedback from tenants.

The Fund generated a total return of 29.9 per cent in the year to 31 December 2016.

# PRIVATE FUNDS

## FOLKESTONE REAL ESTATE INCOME FUND AT WOLLONGONG



### FUND TOTAL RETURN IN CY16

# 24.6%

Type	Unlisted
Sector	Office
Location	Wollongong
No of Properties	1
Gross Assets (\$m)	33.0
Occupancy (%)	98.7
FY17 Forecast Annualised Distribution (%)	11.0
Fund Expires	June 2019

The Fund owns 43 Burelli Street, Wollongong, a six level A-Grade office building comprising 9,827 square metres together with parking for 88 vehicles. Central Square comprises a strong tenancy mix anchored by Commonwealth and State Government tenants who currently contribute the majority of the asset's income.

Folkestone's active management of the asset continued in the past year. The building's largest tenant, Department of Human Services (Centerlink and Medicare) agreed to renew their lease for a further five years to June 2021 over 2,136 square metres on the ground floor and part of level 1. The Department also extended their leases on level four and five (2,780 square metres) for a further year to 2021 to be in line with the new term on the lower floors.

The Fund generated a total return of 24.6 per cent in the year to 31 December 2016.

## FOLKESTONE REAL ESTATE INCOME FUND AT OXLEY



### FUND TOTAL RETURN P.A. SINCE INCEPTION

# 14.5%

Type	Unlisted
Sector	Neighbourhood Retail
Location	Oxley, QLD
No of Properties	1
Gross Assets (\$m)	43.9
Occupancy (%)	98.9
FY17 Forecast Annualised Distribution (%)	8.1
Fund Expires <sup>1</sup>	April 2020

The Folkestone Real Estate Income Fund at Oxley was established in April 2014. The Fund owns a 7,098 square metre neighbourhood shopping centre in the inner Brisbane suburb of Oxley. The Centre is anchored by a 3,200 square metre Woolworths supermarket and the Queensland Government's Department of Communities, Child Safety and Disability Service which occupies 2,400 square metres of office space on level 1 of the Centre. The Centre was completed in July 2013.

Post 31 December 2016, contracts were exchanged to sell the Centre for \$43.5 million, a 13.0 per cent premium to book value and a 25.6 per cent premium to the acquisition price. The sale is subject to a Unitholders' meeting to be held on 8 March 2017.

Should the sale proceed, the Funds annualised total return since inception would be 14.5 per cent.

1. A Unitholder meeting has been convened for 8 March 2017 to sell the asset and wind the Fund up early.

# PRIVATE FUNDS

## FOLKESTONE CIB FUND



### FUND TOTAL RETURN IN CY16

# 31.3%

Type	Unlisted
Sector	Police Stations & Courthouses
Location	Victoria
No of Properties	11
Gross Assets (\$m)	86.1
Occupancy (%)	100

The Folkestone CIB Fund is a closed wholesale fund that owns nine police stations and two law court complexes. The State Government have recently exercised the five year option to extend the lease expiry on all sites to 30 November 2020. Discussions continue in relation to a further extension of all leases across the portfolio.

The Fund generated a total return of 31.3 per cent in the year to 31 December 2016

## FOLKESTONE TRUGANINA DEVELOPMENT FUND



### LAND SUB-DIVISION

# ~718 LOTS

Type	Unlisted
Sector	Residential Land
Location	Truganina, VIC
No of Lots	Circa 718
JV Partner	ID_Land
Fund Interest in Project (%)	80
Fund Equity (\$m)	18.25
FLK Co-Investment in Fund (%)	18.8
Forecast ROE/Equity IRR (%) <sup>1</sup>	75/21.5
Fund Expires	July 2019

The Folkestone Truganina Development Fund has an 80 per cent interest in Elements, a residential master planned community in Truganina, one of Melbourne's fastest growing suburbs. The Fund is developing, in joint venture with ID\_Land (20 per cent), circa 718 residential lots and a 3.1 hectare town centre. Truganina is located approximately 20 kilometres west of the Melbourne CBD in the Western Growth Corridor.

Elements was launched in November 2014 and as at 31 December 2016 we have pre-sold 590 lots compared to the 338 originally forecast to be sold by this date reflecting 1.7 times the original forecast sales volumes, equating to 95 per cent of lots released to date and 86 per cent of total lots.

The Fund's forecast investment return has been upgraded to an equity IRR (post fees, pre-tax) of 21.5 per cent from the original 18.0 per cent.

1. Post fees, pre-tax. Forecast as at 30 June 2016.

# PRIVATE FUNDS

## FOLKESTONE SENIORS LIVING FUND NO.1



### TARGET IRR P.A.

# 15.0%

Type	Unlisted
Sector	Seniors Living
Location	Castle Cove, NSW
No of Properties <sup>1</sup>	1
Gross Assets (\$m)	39.5
Fund Equity (\$m)	25.7
FLK Co-Investment in Fund (%)	10.0
Forecast Equity IRR (%)	15.0
Fund Expires	2023

In September 2016, the Folkestone Seniors Living Fund No.1 (FSLF) acquired Watermark Castle Cove, an award winning retirement living community on Sydney's lower north shore. This is the first asset for Folkestone's seniors living platform and the Fund.

FSLF will seek to acquire a portfolio of high quality retirement living communities in Sydney. This will be achieved by investing in existing retirement living communities and also by joint venturing with partners to develop and ultimately own such communities. FSLF is expected to benefit from increasing demand for seniors living facilities and services driven by an ageing population and growing acceptance of retirement living communities as a quality housing option for Australia's seniors population.

The Fund's initial equity raising of \$25.7 million closed significantly oversubscribed in September 2016 and reflects the strong interest from investors in the seniors living sector.

1. It is proposed to acquire additional assets in the Fund.

# A-REIT SECURITIES FUNDS

## FOLKESTONE MAXIM A-REIT SECURITIES FUND

The Folkestone Maxim A-REIT Securities Fund provides access to a diversified portfolio of quality ASX listed real estate securities which owns office, retail, industrial, residential and real estate related social infrastructure assets. The Fund employs a high conviction, active investment strategy, which focuses on building a portfolio based on individual merit and not by benchmark weights.

The Fund generated a total return of 14.4 per cent (after fees, before tax) in the year to 31 December 2016, outperforming the S&P/ASX300 A-REIT Accumulation Index which returned 13.2 per cent. The Fund was the best performing fund in the Mercer Investment Performance Survey of Australia Real Estate Securities Funds over one and three years to 31 December 2016.

### MANDATES

During HY17, Folkestone Maxim was awarded two separate mandates, offering clients a customised portfolio of A-REIT securities.

## FOLKESTONE MAXIM A-REIT SECURITIES SMA

The Folkestone Maxim A-REIT Securities SMA actively invests in a diversified portfolio of Australian listed real estate investment trusts and real estate related securities. The SMA has exposure to a broad range of real estate assets including, but not limited to, retail, residential, commercial, industrial and real estate related social infrastructure.



1. It is proposed to acquire additional assets in the Fund.

# DIRECT INVESTMENTS

## MILLERS JUNCTION BUSINESS (STAGE 2)



### FORECAST GROSS REVENUE

# \$33.7M

Sector	Enterprise Parks
Location	Altona North, VIC
Size	70 units
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	3.1
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	33.7
Construction Commenced	September 2015
Forecast Completion Date	Early 2018

Folkestone announced in September 2014, a 50/50 joint venture with Wilmac Properties to develop Stage 2 of the Millers Junction precinct into circa 69 office/warehouse/retail units providing a mix of flexible business, retail and storage space. Millers Junction Business when completed, will be a prominent new business hub in the inner western suburbs of Melbourne. The project has a forecast gross revenue of approximately \$33.7 million.

Marketing of the units continued during HY17 and all but 2 of the 70 units have been sold. Stages 1 and 2 comprising 45 units was completed during HY17 and 28 units had settled as at 31 December 2016. The remaining 17 units are to be settled in the March quarter 2017. Construction of the final 25 units commenced in August 2016 and are due to be completed in June quarter 2017 with settlements to follow shortly thereafter.

As at the reporting date, Folkestone's funds invested in this project were \$3.1 million.

## MILLERS JUNCTION RETAIL (STAGE 3)



### FUNDS INVESTED<sup>1</sup>

# \$10.4M

Sector	Large Format Retail, Retail and Community Use
Location	Altona North, VIC
Land Area Owned (ha) <sup>1</sup>	4.4
Folkestone Interest (%)	100
Folkestone Invested Capital (\$m)	10.4
Forecast Gross Revenue (\$m)	65 <sup>2</sup>
Forecast Construction	2018
Forecast Completion Date	2019

Millers Junction Retail is the third and final stage in Folkestone's Millers Junction development, in Altona North, Victoria.

Folkestone entered into an option agreement in May 2015 with BWP Trust and Bunnings Group Limited to purchase the former Bunnings site adjacent to the Stage 3 land. The option expired in October 2016 and is currently being renegotiated. Subject to planning approval, the 3.4 hectare parcel will be consolidated with Folkestone's existing Stage 3 land holding of 4.4 hectares to create a substantial development opportunity which will include traditional retail, large format retail and social infrastructure investments. The Hobsons Bay City Council endorsed the planning application in August 2016 and following a public exhibition, the Planning Panels Victoria will review the proposal in March 2017.

As at the reporting date, Folkestone's funds invested in this project were \$10.4 million.

1. 4.4 hectares owned and option over 3.4 hectares has lapsed but is under negotiation.

2. Subject to Council Approval.

# DIRECT INVESTMENTS

## INDUSTRIA, KNOXFIELD



### FORECAST GROSS REVENUE

**\$37.4M**

Sector	Enterprise Parks
Location	Knoxfield, VIC
Size	Circa 90 units
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	1.9
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	37.4
Construction Commenced	June 2016
Forecast Completion Date	Early 2020

Folkestone announced in April 2015 that it has agreed terms to enter into a second 50/50 joint venture with Wilmac Properties to develop 88 strata office/warehouse/retail units in Knoxfield, Victoria.

Knoxfield is 27 kilometres south-east of the Melbourne CBD and the site lies within an established business park precinct with excellent access to the Eastlink and M1 Motorways.

The Knoxfield site was acquired on deferred settlement terms with the land settled in March 2016. As at 31 December 2016, 19 pre-sales had been secured for Stage 1, leaving one to be pre-sold. An additional 12 pre-sales have been secured in Stage 2, out of the 24 released to date. Construction of Stage 1 commenced in June 2016 and is scheduled to complete in April 2017. Construction of Stage 2 commenced in January 2017.

As at the reporting date, Folkestone’s funds invested in this project were \$1.9 million.

## INDUSTRIA, NUNAWADING



### FORECAST GROSS REVENUE

**\$42.5M**

Sector	Enterprise Parks
Location	Nunawading, VIC
No. of Lots	Circa 71 units
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	2.8
JV Partner	Wilmac Properties
Forecast Gross Revenue (\$m)	42.5
Construction Commences	March 2017
Forecast Completion Date	Mid 2019

In May 2015, Folkestone entered into a third 50/50 joint venture with Wilmac Properties to develop approximately 70 strata office/warehouse/retail units in Nunawading, Victoria with an anticipated end value of \$42.5 million.

Nunawading is located 18 kilometres east of the Melbourne CBD. The site is well located near major road infrastructure – it is 5 minutes from the Eastlink Motorway and 2 minutes from the major East-West arterial, Maroondah Highway and the North-South arterial, Springvale Road.

The land was acquired on deferred terms with settlement occurring in September 2016. Since launching Stage 1, as at 31 December 2016, 24 units and the proposed three story office building have been pre-sold. Construction is forecast to commence in early March 2017.

As at the reporting date, Folkestone’s funds invested in this project were \$2.8 million.

# DIRECT INVESTMENTS

## POTTERS GROVE, OFFICER



### RETURN ON EQUITY

# 26.8%

Sector	Residential Land
Location	Officer, VIC
No of Lots	240
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	0.1
JV Partner	ID_Land
Forecast Gross Revenue (\$m) <sup>1</sup>	44.4
Lots Sold	240
Completion Date	December 2016

Potters Grove, Officer is a 14.1 hectare site located in the Cardinia Shire, in south-east Melbourne. Potters Grove is a 50/50 joint venture between Folkestone and ID\_Land.

During the HY17, the final lot in the estate had been settled.

Potters Grove has delivered Folkestone a total return of \$4.5 million before tax and an equity IRR of 26.8 per cent.

## POTTERS NORTHSIDE, OFFICER



### PRE-SALES OF LOTS

# 100%

Sector	Residential Land
Location	Officer, VIC
No of Lots	Circa 146
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	1.7
JV Partner	ID_Land
Forecast Gross Revenue (\$m)	29.9
Construction Commenced	August 2015
Forecast Completion Date	Late 2017

In August 2014, Folkestone acquired, in a 50/50 joint venture with ID\_Land, a call option over 8 hectares of land in Officer, south-east Melbourne. The land is located on the northern side of the Princes Highway in Officer, diagonally opposite Folkestone and ID\_Land's Potters Grove residential land sub-division. Officer is located in the Cardinia Shire which is in the south-east growth corridor of Melbourne, one of the fastest growing areas in Melbourne.

The joint venture acquired the land on deferred terms providing a capital efficient structure with the first tranche of land settled on 25 August 2015 and the second tranche on 5 August 2016. As at 31 December 2016, all 146 lots had been pre-sold, and 70 settlements in stages 1 to 3 had occurred. The project is due for completion by mid 2017.

As at the reporting date, Folkestone's funds invested in this project were \$1.7 million.

1. Total Project.



# DIRECT INVESTMENTS

## HORNSBY, SYDNEY



### LAND AREA UNDER CONTROL 3,200 SQM

Sector	Mixed-use
Location	North-West Sydney
Land Area Optioned and/or Owned (sq.m.)	Circa 3,200
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	5.5
JV Partner	Lyon Group
Forecast Gross Revenue (\$m)	Circa 435
Forecast Construction	Mid 2018
Forecast Completion <sup>1</sup>	Mid 2019

In December 2014, Folkestone entered into a 50/50 joint venture with Lyon Group, a leading Sydney developer, to develop a strategically located, mixed-use site immediately opposite Hornsby train station and Hornsby Westfield in Sydney's north-west.

The JV controls either through direct ownership or options, circa 3,200 square metres. The JV is seeking to consolidate further land adjoining the existing properties to unlock a significant mixed-use (residential, commercial, retail and community) development opportunity in this strategic location. During HY17, master planning activities continued and negotiations progressed with key stakeholders in relation to the site.

Folkestone may sell down part of its investment to introduce third party capital into the project prior to rezoning/DA approval and/or at the development stage.

As at the reporting date, Folkestone's funds invested in this project were \$5.5 million.

1. It is assumed that the land is sold in 1st Half FY19 as a DA approved site. FLK may decide to develop this in JV with the Lyon Group or bring in other third party capital.

## SOUTH DURAL, SYDNEY



### LAND OPTIONED ~60 HA

Sector	Residential
Location	South Dural
Land Area Optioned and/or Owned (hectares)	Circa 60
Folkestone Interest (%)	50
Folkestone Invested Capital (\$m)	7.6
JV Partner	Lyon Group
Forecast Gross Revenue (\$m) <sup>1</sup>	Circa 610
Forecast Completion	2022

In October 2015, Folkestone announced that it had entered into a second 50/50 joint venture with the Lyon Group, to acquire development rights over circa 60 hectares of land which is currently owned or under option by an entity associated with the Lyon Group in South Dural. South Dural is strategically located between the rapidly growing suburbs of Glenhaven and Kellyville and the established areas of Castle Hill and Cherrybrook in Sydney's north-west.

The joint venture is seeking the rezoning of South Dural which comprises approximately 240 hectares (including the land over which it has development rights) to facilitate residential and mixed use development in an integrated manner under the NSW Government's Gateway Determination dated 4 March 2014. The joint venture has been appointed as Preferred Developer Proponent by the South Dural Residents and Ratepayers Group and is working collaboratively with Hornsby Shire Council and the NSW State Government to have South Dural rezoned.

As at the reporting date, Folkestone's funds invested in this project were \$7.6 million.

1. Subject to Council Approval.

## AMBER, WOLLERT



LOTS  
~550

Sector	Residential
Location	Wollert, VIC
No. of Lots <sup>1</sup>	Circa 550
Folkestone Interest (%) <sup>2</sup>	50
Folkestone Invested Capital (\$m)	3.9
JV Partner	ID_Land
Forecast Gross Revenue (\$m) <sup>1</sup>	137.2
Construction Commences	Early 2017
Forecast Completion Date	Mid 2021

In December 2015, Folkestone announced that it had entered into a fourth joint venture with ID\_Land, to develop a 48 hectare residential master-planned community of circa 550 lots in Wollert in Melbourne's rapidly growing Northern Growth Corridor.

The project known as Amber, is located within the Wollert Precinct Structure Plan (PSP) which received Government approval in February 2017. The land is being acquired on a staged settlement basis with a series of payments required between December 2015 and 2019. Following the PSP approval, Folkestone and ID\_Land intend in March/April 2017 to sell down part of their investment in the project to third party investors via a circa \$23.5 million capital raising in the Folkestone Wollert Development Fund.

During HY17, 98 lots were released to market, with 65 lots pre-sold subject to PSP approval. Since then, a further stage comprising 54 lots has been released and an additional 50 lots have been pre-sold, taking the total pre-sold to 115 lots or 21 per cent of total lots.

As at the reporting date, Folkestone's funds invested in this project were \$3.9 million.

1. Subject to Council Approval.
2. Folkestone intends to hold a 25 per cent interest in the Fund (an effective 20 per cent interest in the project) once the third party capital raising is completed.

## THE RANGES, KARRATHA



NUMBER OF VILLAS COMPLETED  
73

Sector	Accommodation
Location	Karratha, WA
No of Villas – Stage 1	108 (73 completed)
Folkestone Interest (%)	30
Folkestone Invested Capital (\$m)	3.5
JV Partner	Various Parties
Forecast Gross Revenue (\$m) <sup>2</sup>	55.0
No of Villas Sold	73
Forecast Completion Date	Under Review

Stage 1 of The Ranges comprises 2.2 hectares with a "Tourism" zoning and DA approval for 108 single level, one bedroom villas with pool and BBQ facilities in Karratha, WA. To date, 73 units have been completed.

A total of 57 units have been settled, with the remaining 16 units to be acquired by various Joint Venturers, including four to be acquired by Folkestone. Construction has commenced on a food and beverage facility which will compliment the existing offer and make it more appealing to customers.

As at the reporting date, Folkestone funds invested in this project were \$3.5 million.

2. Total Project.



MILLERS JUNCTION HOME, ALTONA NORTH - AN ASSET OF FOLKESTONE REAL ESTATE INCOME FUND AT ALTONA NORTH, VIC

CENTRAL SQUARE, WOLLONGONG - AN ASSET OF FOLKESTONE REAL ESTATE INCOME FUND AT WOLLONGONG, NSW



ONLY ABOUT CHILDREN EARLY EDUCATION CENTRE, CHELTENHAM, VIC - AN ASSET OF FOLKESTONE EDUCATION TRUST

POTTERS GROVE, OFFICER, VIC - FOLKESTONE AND ID LAND'S DEVELOPMENT

# DIRECTORY

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ASX Code: FLK

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Folkestone Investment Management Limited  
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Folkestone Maxim Asset Management  
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Folkestone Real Estate Management Limited  
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Garry Sladden  
Non-Executive Chairman

Mark Baillie  
Non-Executive Deputy Chairman

Greg Paramor AO  
Managing Director

Ross Strang  
Non-Executive Director

## EXECUTIVE TEAM

Nick Anagnostou  
Chief Executive Officer –  
Folkestone Education Trust

Travis Butcher  
Chief Financial Officer – Funds

Ben Dodwell  
Head of Real Estate

Adrian Harrington  
Head of Funds Management

Scott Martin  
Chief Financial Officer &  
Company Secretary

Stuart Nicolson  
Chief Executive Officer –  
Seniors Living

Mark Stewien  
General Counsel

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