



Spire Capital Pty Ltd
ACN 141 096 120
AFSL 344365

USA PROPERTY INSPECTION REPORT

APRIL 2015

By Matthew Cook, Director, Spire Capital

Level 14, 25 Bligh Street
Sydney NSW 2000
T +61 2 9377 0755
F + 612 9377 0788

My colleague Dale Holmes and I have just returned from a visit to the US where we had the opportunity to inspect a number of assets within the ROC II, ROC III and ROC Seniors Housing portfolios in the greater Los Angeles and Atlanta markets.

We also had the opportunity for meetings with Bridge Investment Group Partner's Dan Stanger and Jonathan Slager, the joint Chief Investment Officers for the ROC II and ROC III funds, as well as with Robb Chapin, the CEO of Bridge's ROC Seniors Housing Fund.

We also had the opportunity to meet with the Principals of key Bridge IGP strategic operating and investment partners; Fairlead Commercial Real Estate, LLC in Atlanta, a partner in ROC II and ROC III commercial office investments in Atlanta and Florida, and Meridian Senior Living, the operating and investment partner for all of the ROC Seniors Housing properties in the Los Angeles market.

Notable from our inspection of ROC III assets was an increased ability to understand how the significant potential arbitrage that ROC III investors will enjoy has been created. Many of the assets into which ROC III investors are investing (at Cost!), have already enjoyed significant uplifts in occupancies, rental rates and value. We were able to experience first hand how the on-site improvements to amenities and units has translated into added value.

Below is an extract from the Q4 ROC III Partner's Statement, which clearly shows how some early ROC III assets have already enjoyed significant (unrealised) value growth, which as a ROC III investor's basis is 1.00X (USD denominated) in each deal, demonstrates a clear arbitrage on these assets.

Unrealised ROC III Performance Figures (gross) as at 31 December 2015

Asset	Market	Type	Date Acquired	IRR	Equity Multiple
Artesian on Westheimer	Houston, TX	Multifamily	Dec 14	9.0%	1.08x
Southwood Vista	Atlanta, GA	Multifamily	Jan 15	56.5%	1.43x
Enclave Apartments	Los Angeles, CA	Multifamily	Mar 15	62.2%	1.48x
Sheffield Square	Dallas, TX	Multifamily	Jun 15	48.2%	1.23x
Westshore 500	Tampa, FL	Office	Dec 14	33.7%	1.32x
Embassy Row	Atlanta, GA	Office	May 15	25.9%	1.15x

Our key takeaways from the site inspections were:-

Multifamily

- How repeatable and effective the Bridge IGP amenities improvement packages utilised in ROC II and ROC III value-add multifamily apartment investments are. There is a laundry list of amenities that multifamily CIO Dan Stanger and his team will choose from in adding value to an apartment deal, from clubhouse upgrades and additions, pool area upgrades and additions such as BBQs and fire pits, cabanas and new furniture. Conversion of tennis courts to soccer fields, adding dog parks and making room available for “Project Access”, the Bridge IGP supported provider of communities services programs which include, for example, English Second Language classes, nutritional programs and after school homework centres where local college students studying teaching donate their time to assist resident children with their homework. All of these improvements add to the property’s sense of community, which has the demonstrable effects of reducing resident turnover - because now their apartment community is more than just 4 walls and a roof - and when combined with the interior rehabilitation programs, have the result of increasing the rental values of the properties.
- How advanced the new ROC III multifamily assets that we visited are in implementing the amenities packages and executing the interior rehabilitation programs, and how these works are already resulting in higher occupancies and rentals (and therefore presumably values).
- How advanced and systemised the Bridge IGP multifamily management teams are. They use a sophisticated rent optimisation model which analyses the property’s occupancy rates, as well as the market’s, to adjust asking rents on a daily basis - much like hotel pricing software.
- How strong the Bridge IGP multifamily management team and culture is. On our visits to the new ROC III multifamily assets with Dan Stanger, his first question to the portfolio manager or property manager conducting the tour was “what is your occupancy rate?”; and the second was “how is your team?”. This focus on team to execute the business plan for an asset permeates the Bridge culture and is extremely effective.
- One of our key takeaways has been in renewing our comfort that Bridge IGP are still able to acquire multifamily apartment assets off-market and at prices that represent significant discounts to replacement cost. This was tangibly demonstrated by our inspections in Atlanta of 1980s vintage multifamily apartment properties Landmark at Banyon Bay and Spring Lake, which have been acquired at circa US\$53,000 per unit, as well as Legacy Ridge and Southwood Vista, 2010 vintage A-grade properties acquired at circa US \$84,000 per unit. The current replacement cost for these properties is in the order of US\$140,000 per unit. The natural question is why and how are Bridge still able to do this? One of the main reasons is to do with how these properties have been debt financed by the sellers, and Bridge IGP’s ability to deal with this. Typically, the loans that have been originally made of the properties which Bridge are buying for ROC III, still have a number of years to run, which means if the seller pre-pays these loans on the sale of the property, then that face stiff pre-payment penalties. The seller’s other alternative is to transfer that loan, with the property, to the buyer. However post GFC, as the majority of multifamily loans have been securitised into investment grade bonds, and subsequently guaranteed by the likes of Freddie Mac, a seller is only permitted to transfer a loan to a new borrower of impeccable credentials and track-record - such as Bridge. This means that Bridge have a highly competitive advantage, and are also known to sellers and multifamily brokers as essentially being “pre-approved” borrowers to whom a loan transfer will be approved. As a backdrop to this set of circumstances, is the fact that over the next 3 years there is still approximately US\$300 Billion of securitised US commercial property loans due to rollover and re-finance. The reality is that the US CMBS market is nowhere close to resuming the volumes of pre-GFC issuance, meaning that existing and new borrowers with less than stellar track records will continue to find it difficult to finance new or refinance existing properties, providing continued opportunities for Bridge IGP.

Images 1: Works already completed at ROC III multifamily assets



New soccer field created from an old tennis court.



New BBQ / bar areas and pool furniture add sizzle.



New spaces for Project Access community services programs and classes. These amenities have been proven to reduce resident turnover and therefore boost profitability.



Remodelled clubhouse areas add to community amenities. They can also be rented out by residents for functions which increases the property's cash flow.

Commercial office takeaways

- We had the opportunity to inspect two commercial office investments in Atlanta, both joint ventures with Fairlead, who have a 10% interest in each deal. The first, Parkway Centre, is 1985 and 1988 vintage suburban office campus which was acquired off-market by Bridge IGP (for ROC II) and Fairlead from the Alaska state pension fund for US\$30M in August 2014. At the time of purchase there was significant a vacancy rate of 43% and as a consequence the property was acquired at US\$67 per square foot, or approximately US\$700 per square metre - a significant discount to replacement cost. Bridge and Fairlead have refurbished the properties and executed a major re-leasing program, such that the property is now 88% occupied. The refurbishment and re-leasing program are nearing completion and the asset is expected to be sold in the new two quarters. The expected sale price is in the range US\$70M - US\$75M. Parkway Centre is Bridge IGP and Fairlead's first joint venture together and demonstrates their ability to profitably combine their resources.

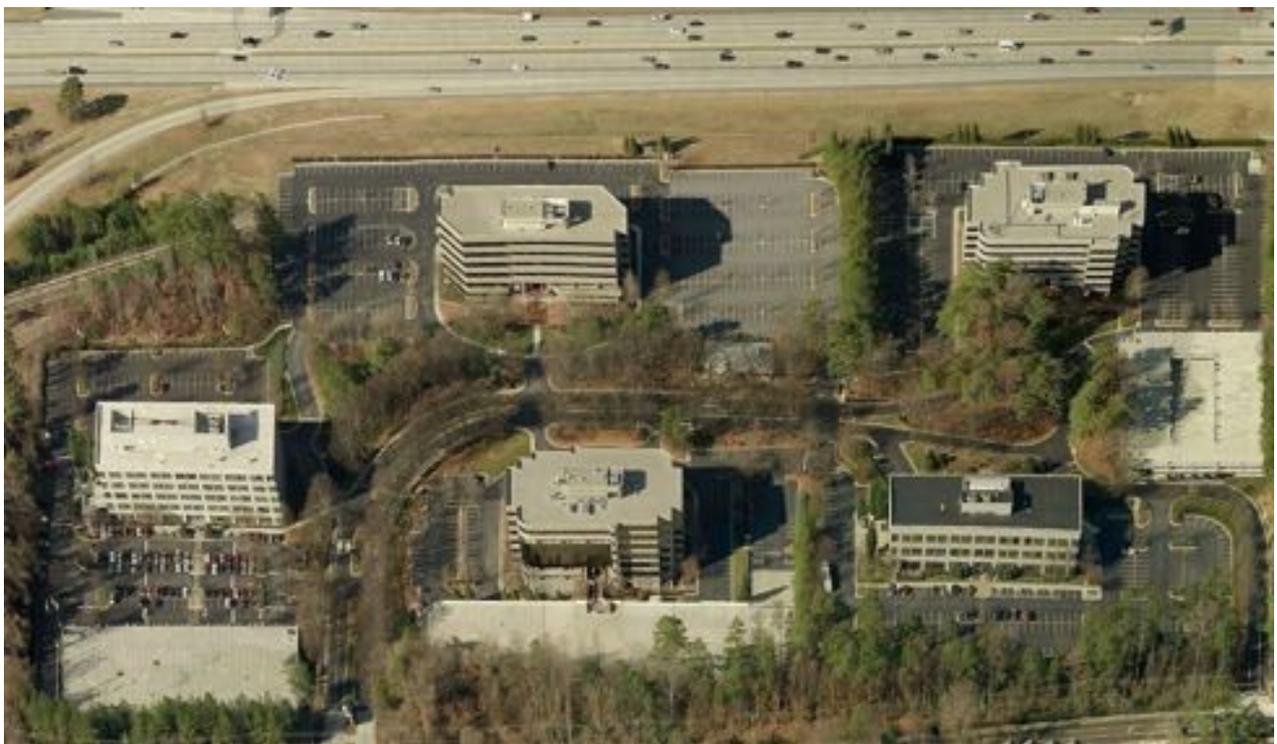
Image 2: Parkway Centre, Atlanta



Model of Parkway Centre, Atlanta - a ROC II asset. This model is located in Fairlead's offices, which are located in Parkway Centre.

- The second Atlanta commercial office asset we inspected is Embassy Row, which shares many of the characteristics of Parkway Centre, in that it is a 5 building suburban office campus, 1980's vintage, high vacancy of 22.5% at acquisition, acquired well below replacement cost at \$127 per square foot - and in joint venture with Fairlead. On our inspection with Bridge and Fairlead we received the distinct impression that the renovation works were well underway as was the re-leasing program with significant negotiations underway with existing on-site tenants and also new tenants looking to move to the property, which are anticipated to take occupancy to 85% in the near future. The property benefits from abundant onsite parking, adjacent freeway access as well as a direct connection to a rail link connecting the property to the Atlanta downtown and airport. The property's DCF modelling shows a 19.8% 5 year IRR and 2.13x equity multiple, and the works we saw on-site give us confidence that the business plan is under execution to achieve these outcomes.

Images 3: Embassy Row, Atlanta



Embassy Row, Atlanta office campus - a ROC III value-add asset. Note freeway and railway access.

EXTENSIVE RENOVATIONS COMING FALL 2015 – Landscaping, Lobbies, Restrooms & Corridors

SUITES RANGING FROM 1,000 - 40,000 (CONTIGUOUS) SF

8400 PEACHTREE DUNWOODY ROAD, ATLANTA, GA 30328

EMBASSY ROW

- New Ownership and New On-Site Property Management
- Excellent Visibility From GA 400
- Instant Access to I-285, GA-400, and Walking Distance to MARTA
- Private Shuttle to MARTA
- Remarkable Variety of Retail, Restaurants and Fitness Surrounding the Park (See Map Pg. 2)
- On-Site Café with Private Meeting/Dining Area
- Free Fitness Center and Conference Center Available
- 24/7 Monitored and Rising Security Services
- Free Structural/Covered Parking (6,100)
- Signage Opportunities & Street-Level Visibility
- 27 Acres West Landscaped Campus, Lush Park Like Setting
- Wonderful Access to Green Space and Pleasant Outdoor Setting
- Redundant Power & Fiber to all Buildings
- Multiple Floor Profiles

For leasing information, please contact: 404.967.3100

JEFF SHAW | jshshaw@fairleadre.com | JIM CASWELL | jmcaswell@fairleadre.com

FAIRLEAD

Embassy Row 600
Suite 500
24,251 sf

EMBASSY ROW

FAIRLEAD

For leasing information, please contact:
JEFF SHAW | jshshaw@fairleadre.com | JIM CASWELL | jmcaswell@fairleadre.com

On site marketing materials on Embassy Row floors currently undergoing renovation.

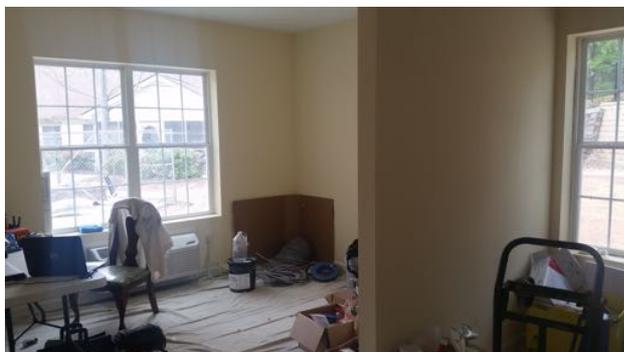
Seniors housing takeaways

- Our takeaways on visiting 3 seniors housing assets in LA and one in Atlanta, all of which are in the first ROC Seniors Housing Fund, is that, much like multifamily apartments, the improvements that can be made to assets and programs are very repeatable and adaptable throughout different markets. A good example of this, is the implementation of the Montessori Memory Care program by Meridian Seniors Living, in all of the assets for which they are the operational partner. Like ROC II and ROC III, ROC Seniors Housing is a value-add fund, and we were pleased to see the value-add plans under implementation at each asset, including the near completion of the new 14 bed wing at Peregrin’s Landing in Atlanta, and the complete repositioning of this asset from Assisted Living to Memory Care, and the excellent take up of units on this basis, such that the existing units are essentially fully occupied, and a strong pipeline of enquires for the new 14 beds for when they come on line.

Images 4: Peregrin’s Landing Memory Care, Atlanta



New Memory Care wing nearing completion at Peregrin’s Landing in Atlanta.



New unit internal



Existing Peregrin’s Landing Memory Care residents engaged in activities.

Summary

The following assets were recently inspected by Spire Capital:

Property	Market	Type	Fund
Terracina Apartments	Inland Empire (Los Angeles, CA)	Multifamily	ROC III
Promenade Terrace	Inland Empire (Los Angeles, CA)	Multifamily	ROC III
Raincross at Riverside	Inland Empire (Los Angeles, CA)	Assisted Living / Memory Care	ROC Seniors Housing
Meridian Gardens	Inland Empire (Los Angeles, CA)	Memory Care	ROC Seniors Housing
Warwick Square	Orange County (Los Angeles, CA)	Multifamily	N/A*
Meridian at Crown Cove	Corona Del Mar (Los Angeles, CA)	Assisted Living / Memory Care	ROC Seniors Housing
Landmark at Banyon Bay	Atlanta, Georgia	Multifamily	ROC III
Spring Lake	Atlanta, Georgia	Multifamily	ROC III
Southwood Vista	Atlanta, Georgia	Multifamily	ROC III
Legacy Ridge	Atlanta, Georgia	Multifamily	ROC III
Embassy Row	Atlanta, Georgia	Commercial Office	ROC III
Parkway Centre	Atlanta, Georgia	Commercial Office	ROC II
Peregrin's Landing	Atlanta, Georgia	Memory Care	ROC Seniors Housing

**Warwick Square is an asset owned for 20+ years by Bridge IGP founders Dan Stanger and Chris Young. This is the asset within which new Project Access programs are trailed.*

For further information, please contact:

Matthew Cook

Director / Fund Manager
Spire Capital Pty Ltd
T +61 2 9377 0714
matthew.cook@spirecapital.com.au

For advisor / investor enquires, please contact:

Dale Holmes

Director / Head of Investor Relations
Spire Capital Pty Ltd
T + 61 2 9377 0714
dale.holmes@spirecapital.com.au

"Equity Trustees Limited ("Equity Trustees"), ABN 46 004 031 298 and Australian Financial Services Licence Number 240975, is the Responsible Entity of the Spire USA ROC Funds. Spire Capital Pty Ltd ("Spire") ABN 21 141 096 120 and (wholesale) Australian Financial Services Licence Number 344365 is the Fund Manager of the Fund. This Monthly Update has been prepared by Spire for general information purposes only. It does not contain investment recommendations nor provide investment advice. Neither Equity Trustees nor Spire nor their related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in the Fund. Past performance is not necessarily indicative of future performance. Professional investment advice can help you determine your tolerance to risk as well as your need to attain a particular return on your investment. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. You should not act in reliance of the information of this Monthly Update. We strongly encourage you to obtain detailed professional advice and read the relevant product disclosure statement in full before making an investment decision. Applications for an investment can only be made on an application form accompanying a current Product Disclosure Statement ("PDS")."