

Via Appia Investor Newsletter

27th May 2019

Welcome to your investor newsletter, *Via Appia*.

We strive to keep you informed on your investment with up to date, relevant information.

Should you wish to suggest any changes in the detail or format of this newsletter, please contact us at info@appianproperties.com 08 93848752. We welcome your feedback. **The internet web address for Appian Properties Pty Ltd is www.appianproperties.com for all web based information including reports, newsletters and financial statements.**

Investor Information

UPDATES MOVING ONLINE

Via Appia is in digital format on our web site. You will also receive a copy of this report in the postal mail.

In order to assist future communications, please update your registered email address by notifying Appian Properties at info@appianproperties.com with your new details in writing. Please include your investor ID number.

We are available during business hours at the number listed above or on Robert Nichevich's mobile 0409 094 833 in Western Australia at any reasonable time.

Disclaimer

The information provided in this report has been carefully prepared and reviewed and is based on various assumptions available to the Manager at the time. Neither the Manager nor any company related to the Manager guarantees the performance or success of either Managed Investment, the total distribution or the repayment of investors' subscription or any capital. Advisors and Investors should appreciate that factors which affect results may be outside the control of the Manager or may not be capable of being foreseen or accurately predicted.

This report has been prepared for general information only. It does not take into account your current or future financial circumstances. Nothing in the information contained in this update is intended to induce you to acquire or dispose of your units in the Managed Investment.

The Responsible Entity for both schemes is Primary Securities Ltd ABN 96 089 812 635 AFSL 224107.

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PROPERTIES

Avonlee Henley Brook

Project Update

This project is a significant development of an expected 581 residential lots. When the project was originally designed the number of lots to be developed was planned to be 416 single residential lots and 1 unit site. The extra circa 170 lots created has enhanced revenue expectations however adversely extending the term of the development.

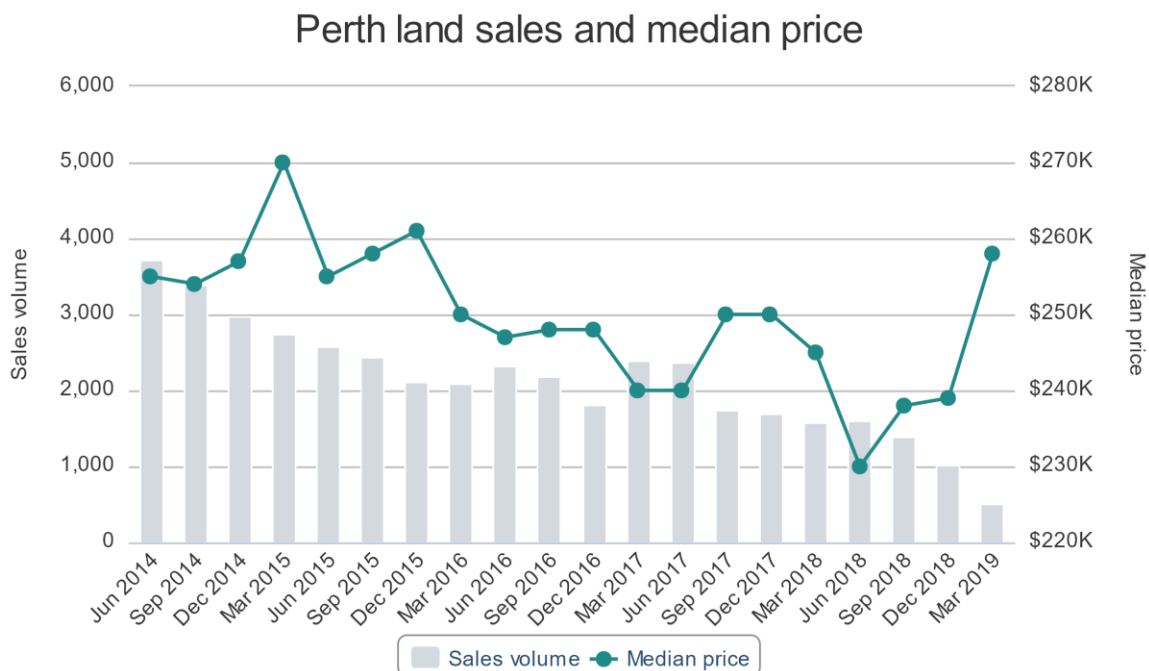
The project is now part of the suburb of Brabham in the City of Swan. The suburb now includes developments by four other developers. This has created a much more competitive environment affecting the sales rates and pricing of lots for this estate.

Profit for the syndicate was estimated in the PDS (Prospectus) to be \$11.5m before tax. A budget is being prepared to update these numbers. The changed market conditions, product preferences and current costs are being considered in the current budget. New figures will be provided in the next newsletter and in the final June 2019 accounts.

Sales and Marketing

In any project of this size and duration there are the market movements and fluctuations caused by the very nature of markets over an extended time. These unexpected market movements impact constantly on the returns to be provided by a land development syndicate such as this. The Western Australian property market, including the residential subdivision market, continues to experience difficult trading conditions in respect to pricing and volume. This has resulted in a reduced sales rate and downward pressure on selling prices.

In recent times the pressure on Banks by the Royal Commission has made financing sales very difficult however we are buoyed by the signs since the election including the changes by APRA in the loan assessments, the potential for investors to return to the market and Commonwealth and State Government support for first home buyers.



The volume of sales shows a quarterly reduction in sales in June 2017 from 2,300 lots per quarter to circa 500 lots in the March quarter. Despite the syndicates best efforts, the decline in demand has affected the rate of sales in this estate. The strengthening of the median land price is reflective of a change of demand to larger lots.

Marketing is undertaken by a fulltime employee of the project manager who regularly calls on display homes. The syndicate manager is also working on business to business arrangements with major builders to create additional buying opportunities. The syndicate has a sales office on site that is manned twice a week, marketing information and plans are available on site at all times.

Advertising is focused on signage and the internet. This is intended to bring buyers to the estate, albeit the use of Facebook and specialist real estate sites IT is quickly replacing print media as a preferred source of project information for buyers.

The syndicate continues to work with various home builders to develop house and land packages for sale. This provides another medium to attract prospective buyers as both parties will be marketing the product. The packages are updated regularly.

There is an interchange of sales statistics in the area between the various estates which evidences Avonlee as achieving a better than average success rate compared to the nearby estates.

Stage 9 has been selling from practical completion in September 2016. Of the 65 lots developed in stage 9 as at the 30th April 2019, 5 remain unsold. This statistic highlights the state of the market and the time taken to sell lots. Our estimate is that we have resold the 65 lots twice due to fall overs.

Stage 10 was completed on 2nd January 2018. As at 30th April 2019 there were 25 lots to sell out of 56 lots developed.

In many genuine cases we have supported the efforts of prospective buyers with finance condition extensions. It is not unusual to have finance clauses extended for 270 days from purchase contract to settlement. These uncertainties make the process of predicting cash flows and managing the project difficult.

Facilities

The West Australian Planning Commission has approved the site for a Commercial centre to provide basic medical and grocery services to the community. The developer Appian Properties Pty Ltd has lodged a Development Application with the City of Swan. If approved this is expected to enhance the amenity proposition of the development and leverage further lot sales.

District Roundabout

Political lobbying continues over the reimbursement of costs associated with the roundabout. The matter is now before the State Administrative Tribunal. The city refused the application following advertising as requested by the Minister. We are expecting a resolution in the short term.

Project Financing

The syndicate has been able to arrange alternate financing for the project. Settlement of the new facility to repay the balance due to NAB was completed on the 7th November 2018. The new Facility has provision for distributions to investors.

Approval for distributions will be required from the lender and will depend on the sales rates and future development funding requirements. We are currently in discussions with the lender to extend the funding and

thereby potentially allow for a distribution in the first quarter of the next financial year. This planned distribution will **depend** on continuing settlements of the current stock of contracts totalling circa \$5m gross.

Forecast & Distributions

While all information has been carefully considered to prepare this forecast, investors should appreciate that this does not constitute a guarantee of future returns or distributions.

The management group understands the frustration of the delays in distributions and the roller coaster estimate of returns to investors. The supervisor is a significant investor in this syndicate and is as anxious as anyone to see the completion of the project.

Current stock on hand represents up to 5 months sales on current trends. Planning and application for approval for stage 11 including the proposed Commercial Centre is with the City of Swan. On approval the syndicate will consider developing the next stage. Development timing will depend on market conditions over the next six months.

With sales slowing and discounting of lots, there has been an impact on expected returns. The manager is conscious of the need to return funds to investors and is working as diligently as possible to begin a return of funds to investors.

Unit profit (pre-tax) is expected to be circa \$1.30 per unit. A distribution timeframe is uncertain although we are hopeful of making a distribution in the next quarter.

Lot Sales at 31st April 2019

	Stage 1-5	Stage 6	Stage 9	Stage 10	Stage 11+	Total
Total Lots	195	64	65	56	201	581
Lots Sold	195	64	61	35		355
Lots Settled	195	64	56	13		328
Lots Available	0	0	4	21	201	226

Key Data

Start Date	December 2005
End Date	December 2021 (estimated)
Units on Issue	11,000,000
Purchase Price	\$12,500,000
Latest Valuation	Dated 28 th June 2018 showing a value of \$20,340,000
Unit Value 30 th June 2018	\$1.48

Finance Structure

Financial Institution	Private Investor
Loan Amount	\$3,500,000
Loan Term	June 2020
Gearing Ratio	Maximum LVR 30%
Loan to Value Ratio (LVR)	The loan is compliant
Current Interest Rate (variable)	8% (6.5% above Reserve Bank rate of 1.5% currently)

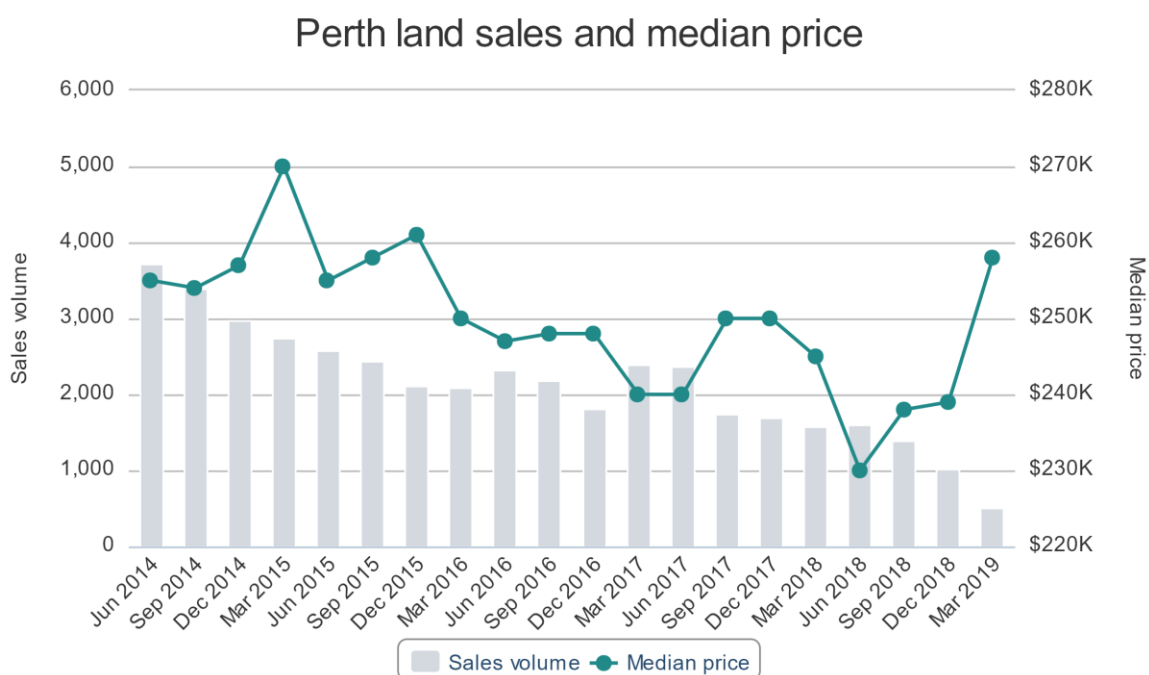
The syndicate has a cash balance of \$1.9m credit as at 20th May 2019. The loan is a fixed sum for a fixed term and interest earned on the cash funds is used to offset the cost of the borrowings. This gives the syndicate a circa 6% cost of borrowings.

Southern River

Project Update

This project is a significant development of an expected 386 residential lots. When the project was originally designed the number of lots to be developed was planned to be 305 single residential lots and 1 commercial site. The extra circa 85 lots created have extended the term of the development and assisted in the syndicate achieving a surplus.

In providing forecasts under the PDS of the expected surplus there was an expected price growth of 7%. This was considered reasonable by the independent valuers report with the PDS when it was issued. The current forecast has excluded any price growth for the next year.



Sales and Marketing

The Western Australian property market including the residential subdivision market continues to experience difficult trading conditions in respect to pricing and volume. This has resulted in a reduced level of sales activity and downward pressure on our retail pricing strategy.

The above chart comprehensively explains the state of the residential lot market in Western Australia.

The perceived value in the established housing market is an additional cause for the reduction in pricing and volumes in the new housing market.

The volume of sales shows a quarterly reduction in sales in June 2017 from 2,300 lots per quarter to circa 500 lots in the March quarter. Despite the syndicates best efforts, the decline in demand has affected the rate of sales in this estate. The March quarter price rise is reflective of an increased demand for larger lots.

Stage 8 lots were completed in September 2017 and titles for stage 8a were available from January 2018. Stage 8b titles were issued in March 2018. A total of 24 lots have been sold out of 56 lots that were developed. Current sales are running at .5 per month

Marketing is being undertaken by a full time employee of the project manager calling on all building companies and their representatives in the greater Southern River area.

Advertising is focused on signage and the internet. This is intended to bring buyers to the estate ensuring they are directed to the estate. The focus of the target market is being in all things technological hence the concentration on IT systems to promote the project.

The syndicate is working with various home builders who have provided house and land packages for sale. This provides another medium to attract prospective buyers as both parties will be marketing the product. The packages are available on the internet.

The manager constantly reviews the market, available land nearby, pricing of lots and discounting by the various competitors in the nearby estates in managing the sales in the project.

Project Financing

There is no debt on the estate. Current balance in the accounts of the syndicate as at the 20th May 2019 was \$1,451,123 credit. Further there are \$1,347,672 in cash Bonds with the City of Gosnells and approximately \$1.6m in refunds due for public open space costs incurred on behalf of the City.

Forecast & Distributions

While all information has been carefully considered to prepare this forecast, investors should appreciate that this does not constitute a guarantee of this forecast.

The Audited Financial Statements to 30th June 2018 have been completed and are available on the website. If you require a printed copy please advise the manager.

The syndicate paid its first distribution to investors on 4 November 2015. The 10c per ordinary unit distribution was declared as capital return to defer tax obligations to investors. A further 20 cents per unit was paid on 31 March 2016 as a capital return.

Further distributions will be influenced by the timing of repayments of the various deposits noted above. The timing is unknown as the City and WAPC continue to complete the terms of the Development Contribution Scheme.

The manager is constantly in touch with all the authorities involved to encourage the completion of this Scheme. When payments are received these funds will be returned to unit holders.

The managers are paid predominantly on a percentage of sales. It is in their best interest as major unit holders as well as the incentivised remuneration structure to complete the project as soon as possible. We, along with the unitholders remain frustrated with the delays. The current state of the market is at a level not seen for many 'years, if ever.

We thank you for your patience while we continue to prudently manage the syndicate and continue to pay distributions in line with our current forecast.

Returns for investors of the Southern River Syndicate are currently envisioned to be \$1.34 for ordinary units and \$0.34 for bonus units (including capital invested) for each unit held before tax.

Of these sums investors have received 30c per ordinary unit and will receive the balance as estimated below.

Note that actual cash distributions will be less than these amounts because the syndicate is taxed as a company and will have to pay income tax on profits. However, investors will receive franking credits.

The below forecasts are based on current market conditions and are subject to change if those conditions change.

Lot Sales at April 31st 2019

	Stage 1-6	Stage 7	8	9	Total
Total Lots	222	55 [^]	53	56	386
Lots Sold	222	54	24		300
Lots Settled	221	54	17		292
Lots Available	0	1	29	56	86

[^]1 lot available for sale in Stage 7. Data correct as at 30th April 2019

Key Data

Start Date	August 2006
End Date	December 2020 (estimated)
Units on Issue	10,000,000 Ordinary 3,000,000 Supplementary 7,200,000 Bonus
Purchase Price of Land	\$14,337,000
Latest Valuation	\$12,130,000 ex GST (completed 11 th July 2018)
Unit Value 30 th June 2018 pre tax	\$1.04 Ordinary \$0.34c PU Bonus