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# ARCANA CAPITAL

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*Your Commercial Property Partners - Tailored High Yielding Portfolios*



**Q1 2022  
UPDATE**

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14 April, 2022

## OVERVIEW

In the first quarter of 2022, Australia faced a myriad of uncertainties with the onset of military conflict in Eastern Europe, the floods affecting South-East Queensland and New South Wales, a looming federal election, as well as the residual effects of the COVID-19 pandemic.

Inflationary pressures in the economy are projected to continue, especially given the volatile international outlook and the likelihood of energy prices remaining high in the coming months. In early April 2022, the RBA acknowledged that expectations of raising interest rates had materially increased. Most analysts are now forecasting significant interest rate rises commencing from mid-2022. Westpac revised its forecast for the cash rate to reach 1.25% by the end of 2022.

Despite this, Australia's commercial property market has remained largely resilient to date. Passing yields will potentially increase later in the calendar year which could reflect significant buying opportunities.

## ACQUISITIONS

The purchase of the Weir Minerals Industrial Facility at 41 Kayili Road Kalgoorlie at a price of \$8.15 million was completed, with settlement occurring on 16 March 2022. This marked a strong initial foray into the Western Australian commercial property market, with an 8.8-year WALE on a prime property. Monthly distributions are forecast at 7.5% p.a. in Years 1 and 2.



With the settlement of 41 Kayili Rd Kalgoorlie, Arcana Capital has acquired \$160.16 million in commercial property since early 2016.

## OPERATIONAL UPDATE

Q1 2022 highlights include:

- 5-7 Fortune Avenue Bongaree Unit Trust - A contract for sale for \$9.0 million was agreed and is progressing (see details below).
- 30-32 Cypress St Redland Bay Unit Trust - A Heads of Agreement was signed with City Cave for a 10-year lease for the remaining vacancy. Other developments include the successful negotiation of a new 5-year lease with the Rededge Medical Centre. With these developments the site will be fully leased for the first time since the property was built in 2008.
- 233-235 Goodwin Dr Bongaree Unit Trust - An agreement has been reached with the new owners of the Goodwin Drive Family Medical Centre for a new 7-year lease from 1 May, 2022.
- 91 Connors Rd Paget Unit Trust - Negotiations have commenced with UGL for an early lease extension in return for capital upgrades to the site. The lease expires in May 2024 and UGL have one 5-year option remaining.
- 143 Gladstone Rd Rockhampton Unit Trust - The replacement of 4 X 96 kW rooftop AC units and the refurbishment of the roof was completed in accordance with the IM. This project came in \$84,000 under budget. Discussions have commenced with Fantastic Furniture regarding the installation of solar panels.
- 115-123 Wellington St Launceston Unit Trust - The brick parapet repairs and fire door replacement jobs were completed in accordance with the IM. The loading bay wall and roof works are due to be completed in April. This project is currently well under budget.

There were only minor impacts to the Arcana property portfolio from the major flooding events of February and March 2022. A number of tenancies at our Centrepoint Toowoomba property sustained damage to floor coverings from stormwater however rectification works will be covered by insurance and have commenced.

As of Q1 2022, weighted average monthly distributions are 8.6% p.a. across the portfolio.

## CURRENT OPPORTUNITES/ACQUISITIONS IN PROGRESS

The acquisition of the Courts Corner Medical Centre at 142 Nebo Road Mackay has progressed according to plan, with due diligence and capital raising now complete. Unit Certificates were distributed to Unit Holders on 11 April 2022, and the Contract is now unconditional. Contract settlement date is 12 May 2022, however the aim is to bring this forward to late April.



## SALE of 5-7 FORTUNE AVE BONGAREE

The sale of one of our high-performing retail assets is well progressed, with the Contract for \$9.0 million now unconditional. Settlement is projected to occur on 30 May 2022.

The property was purchased in Q3 2016 for \$7.3 million and distributions averaged 8.8% p.a. over the period of ownership.



## FUTURE OPPORTUNITES

The Arcana team continued to scour the market for value and have been proactively looking in New South Wales, Western Australia, South Australia, Tasmania, the Northern Territory and Queensland. The focus remains on securing quality assets in the industrial, medical / allied health, and non-discretionary retail sectors. Long WALE office in areas with strong economies and population growth will also be considered.

In the short-term market conditions remain challenging, with yields for most commercial asset classes remaining at historical lows. We do however anticipate that appropriate opportunities will arise more frequently in the second half of 2022 as vendors begin to feel the pressure of anticipated rising interest rates.

Opportunities will be presented to our investor base as they are secured.