
ARCANA CAPITAL

Your Commercial Property Partners - Tailored High Yielding Portfolios



Investor Update

12 May 2023

OVERVIEW

The opening months of 2023 have been characterised by notable changes in Australia's political and financial landscape. With the Australian Labor Party's state election victory in New South Wales, Labor is now in power federally and in all mainland states.

In response to persistent inflationary pressures in the economy, the RBA has continued to implement cash rate rises, with the most recent 25 basis point rise increasing the cash rate to 3.85% p.a. on Tuesday 2 May 2023. According to RBA Governor Philip Lowe, the central bank currently forecasts inflation to average 4.5% in 2023, and 3% by mid-2025.

The labour market remains competitive, with unemployment currently at 3.5% and wage growth continuing to increase accordingly. Household spending appears to be slowing due to a combination of higher interest rates, cost-of-living pressures, and an earlier decline in housing prices.

Although commercial property yields continue to soften as cost of debt increases, interest rates are now expected to plateau in mid-2023. With increased interest rate stability, and construction costs still highly inflated, it is expected that yields may begin to stabilise, and potentially tighten, as demand for commercial property strengthens.



ACQUISITIONS

Arcana Capital completed the acquisition of 35 Miles Platting Road Eight Mile Plains for \$13.55 million, and 190 Stirling Street Perth for \$12 million, forming our largest opportunity to date – the Capital City Office Unit Trust.

The properties were acquired at a blended yield of 7.84% - considered excellent value, with market evidence indicating recent sales of comparable properties at sub-7.00% yields.

With the two complementary assets providing geographic and tenant diversity, the Capital City Office Unit Trust is projected to deliver a distribution of 7.25% p.a. paid monthly to wholesale investors (in Years 1 and 2).



With the settlement of 35 Miles Platting Road Eight Mile Plains and 190 Stirling Street Perth, Arcana Capital has acquired \$212.71 million in commercial property since early 2016.

DIVESTMENTS

Arcana Capital is progressing the wind-up of the following Trusts:

- 5-7 Fortune Ave Bongaree Unit Trust;
- Advent Childcare Unit Trust; and
- 233-235 Goodwin Dr Bongaree Unit Trust.

2023 Tax Statements, Unit Redemption Notices, and Audited Financial Statements have been uploaded into the Trusts' respective Investor Portal folders, and documentation has been submitted to ASIC to finalise deregistration.

MARKETING FOR SALE OF 43 QUEEN ELIZABETH DR ROCKHAMPTON

Upon analysis of market conditions for fuel and convenience retail assets in Queensland, Arcana Capital's Directors formed the opinion that the property at 43 Queen Elizabeth Drive Rockhampton is in a favourable position to sell for a timely exit and potential for a small capital gain.

With full formal support of Unitholders, the property is currently being marketed by Stonebridge Property Group on an Expression of Interest basis.

The property was purchased for \$4.75 million in April 2018, and has averaged Unitholder distributions of 8.00% p.a. in 2023.



PORTFOLIO OPERATIONS

91 Connors Rd Paget Unit Trust

- Arcana Capital is in discussions with UGL regarding an extension of their 5-year lease, currently due to expire in May 2024.

Centrepoint Toowoomba Unit Trust

- BCF have indicated that they will seek to relocate upon expiry of their current lease in October 2023.
- Arcana Capital is actively marketing the upcoming vacancy for a replacement tenant.
- There has been significant interest from potential tenants, but no offers for lease have been received to date.

27 South – Fuel Assets Unit Trust

- Arcana Capital has received an offer for the purchase 1965 D’Aguilar Highway D’Aguilar from a commercial developer, conditional on satisfaction of the developer’s due diligence and discussions with Chevron to secure an agreement for lease for the proposed development.
- Should due diligence be satisfied, the developer’s offer will be presented to Unitholders with recommendations from the Directors.

56-60 Len Shield St Paget Unit Trust

- Capital works included as lease incentive (as outlined in the Information Memorandum) are largely complete, with the instalment of a new 20-tonne gantry crane in the property’s main workshop.

**As at 12 May 2023, weighted average monthly distributions are
8.3% p.a. across the Arcana Capital portfolio.**

COMMERCIAL PROPERTY MARKET

Metro Office



Metropolitan offices are currently out of favour, with the asset class becoming a clear buying opportunity available to Arcana Capital in 2023. This is likely due to the view that hybrid work is affecting the office landscape, alongside rising interest rates.

Industrial/ Logistics



The industrial and logistics sector is experiencing high income growth due to a structural undersupply of warehouse space and land in Australian capital cities, with development activity currently subdued due to increased costs associated with funding and construction.

As a result, capitalisation rates have remained tight despite higher costs of debt, and it remains difficult to find value within this asset class as a buyer.

Retail



Although retail yields have softened in 2023 due to higher interest rates and decreased investment appetite, capital values are expected to remain stable due to income growth, decreasing shopping centre specialty vacancy rates, and higher national average gross face rents for regional and neighbourhood retail centres.

Stability of this asset class will be dependent on the unfolding economic environment.

Health/ Medical



Health and Medical Assets have continued to be resilient in the face of market volatility and higher cost of debt. Telehealth consultation rates have stabilised, bolstering requirements for space as in-person consultations increase.

Greater investment into Medical Research is reinforcing demand for relevant space, and significant demand for elective surgeries has maximised hospital utilisation and bolstered demand for day hospitals.

FUTURE OPPORTUNITES

The Arcana team continue 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, while certain metropolitan office assets will be considered.

In the short-term, market conditions appear to be stabilising, with acute interest rate rises purported to cease. The undersupply of commercial property and a more stable interest rate environment are expected to keep capitalisation rates competitive for the foreseeable future.

For more information, or to receive timely correspondence regarding future opportunities, please contact us at: contact@arcanacapital.com.

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Investment returns presented in this document are either forward projections for new opportunities or the actual current distributions of our existing Trusts. The performance of our existing Trusts are updated every quarter.

Whilst the preservation of investor capital is Arcana's key priority, every investment carries a level of risk. Investors should only invest with Arcana after considering the risks and returns outlined in the relevant Information Memorandum and obtaining independent financial advice.