

---

# ARCANA CAPITAL

---

*Your Commercial Property Partners – Tailored High Yielding Portfolios*



**Q2 2022  
UPDATE**

---

14 July, 2022

## OVERVIEW

The second quarter of 2022 has been characterised by significant changes in Australia's financial and political landscape. Most noteworthy is the recent federal election victory of the Australian Labor Party (ALP), in addition to rising inflation and significant cash rate rises implemented by the Reserve Bank of Australia (RBA).

Strong inflationary pressures in the economy resulted in the RBA raising the cash rate rapidly from a low of 0.10% in May to 1.35% in July. This has seen variable interest rates for Arcana's non-recourse debt facilities move from the low to mid 2% p.a. range in early 2022 to the current high 3% p.a. range. Markets now expect further significant rises in interest rates into 2023. We note that this has occurred despite earlier advice, on several occasions, from the RBA indicating that the cash rate would not rise until 2024.

In recent weeks, some property agents have reported reduced buyer interest and there is early market evidence of passing yields in some sectors beginning to soften.

## ACQUISITIONS

The purchase of the Courts Corner Medical Centre at 142 Nebo Road Mackay at a price of \$6.0 million was completed, with settlement occurring on 27 April 2022. Monthly distributions were paid at 7.00% p.a. in Year 1 as per the IM forecast, and are projected to continue at 7.00% p.a. for Year 2, based on an average interest rate of 4.50% p.a.



This was followed by the purchase of the vacant 56-60 Len Shield Street Paget at a price of \$3.5 million, with settlement occurring on 10 June 2022. A seven-year lease was secured with Steelarc Engineering, with distributions projected at 10.00% p.a. in Years 1 and 2.



**With the settlement of 142 Nebo Rd Mackay and 56-60 Len Shield St Paget, Arcana Capital has acquired \$169.66 million in commercial property since early 2016.**

### **CURRENT OPPORTUNITIES/ACQUISITIONS IN PROGRESS**

The acquisition of the Pacific Energy (KPS) industrial building at 65 Carnegie Street Kalgoorlie is progressing according to plan, with due diligence set to be satisfied in mid-July 2022 and capital raising in progress. Unit Certificates are scheduled to be issued to Unit Holders in mid-August 2022, shortly before going unconditional on the Contract. Contract settlement date is 14 September 2022; however, the aim is to bring this forward to late August 2022.

At a purchase price of \$10.9 million, this property has a 9.09-year WALE to Pacific Energy (100% owned by Queensland Investment Corporation) and is projected to distribute 7.75% p.a. in Years 1 and 2.



**As of Q2 2022, weighted average monthly distributions are 8.4% p.a. across the portfolio.**

### **SALE OF 5-7 FORTUNE AVE BONGAREE**

The sale of the Bribie Retail Centre for \$9.0 million is now complete, with settlement occurring on 30 May 2022. This represents a capitalisation rate of 5.40% and provided a cash distribution to date of \$1.25 per unit to investors (originally \$1 invested). The property was purchased in Q4 2016 for \$7.3 million and distributions averaged 8.80% p.a. over the period of ownership.



## SALE OF 2 PLATZ ST DARLING HEIGHTS (ADVENT CHILDCARE)

Upon analysis of market conditions for childcare assets, the Arcana Capital Directors formed the opinion that the Advent Childcare at 2 Platz St Darling Heights was in a favourable position to sell for a strong capital gain. The property was purchased in Q4 2019 for \$3.9 million and distributions averaged 8.00% p.a. over the past two years of ownership. With formal support of all unitholders, the property was listed on the Burgess Rawson Portfolio Auction on 23 June 2022.

Despite indications of a softening market, the auction was successful, with the property selling for \$5.75 million. This represents a capitalisation rate of 4.91% and will provide a solid capital gain to unitholders. Settlement is projected to occur late September 2022.



## OPERATIONAL UPDATE

Q2 2022 highlights include:

- 5 Ganley St Gladstone Unit Trust – A new 3-year lease has been agreed with Xtreme Engineering, commencing in October 2022.
- 28 Park Ave Woodville Unit Trust – Negotiations have commenced with Viridian Glass for an early lease extension in return for capital upgrades to the site. The current lease expires in February 2025.
- 30-32 Cypress St Redland Bay Unit Trust – The Rededge Shopping Centre is now fully leased, with the City Cave lease commencing in September 2022. Negotiations regarding lease extensions for anchor tenant IGA, and Redland Bay Smiles Dental, have begun.

## IN CLOSING

The Arcana team continue to scour the market for value and search proactively across Australia. 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 to medium term, market conditions appear to be weakening, with significant interest rate rises placing pressure on commercial property vendors as buyers become more cautious. Passing yields will likely soften in the second half of 2022 and into 2023, indicating the potential for quality buying opportunities for select properties.