

# VIENTO

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PROPERTY

ABN 51 095 920 648 AFSL 224663

## Insider News

Quarterly Update

July 2011



# Metro Property Syndicate

ARSN 104 394 658

## Welcome to the Winter edition of *Insider News*

This issue brings you the latest information on your Viento investment and relevant property industry news.

### Tax Statements

Investors in the Viento Diversified Property Fund, Henley Brook and Southern River Syndicates did not receive taxable income during the 2010/2011 Financial Year. An Annual Taxation Statement will not be issued for this period, however investors in these schemes have been sent a Unit Holding Statement in lieu of an Annual Taxation Statement.

Investors in the New Enterprise, Metro and Première Property Syndicates received taxable income during the 2010/2011 Financial year and will be sent an Annual Taxation Statement in September, once the accounts are finalised.

Both South Grafton and Paralowie Shopping Centres were advertised for sale via an expressions of interest campaign which closed at the end of March 2011. At this stage we have not been successful in securing a buyer for either of the properties.

Both properties were independently valued in June 2011 as required by our financiers and have declined in value since we obtained valuations in August 2009. The valuations have resulted in a 13.66% reduction in value, reflecting a softer market, particularly in the retail sector. The unit price reduced from 0.82 (as published in our April 2011 edition) to 0.50 per unit.

With the decrease in property values, the LVR now exceeds the limit of 65% (reducing to 60% by 30 June 2012) imposed by our financiers. The Syndicate now has an LVR of 73.6%. This represents an increase of 11.2% from the previous LVR of 62.4%.

Our financiers, NAB, have issued a breach notice as required under the loan agreement.

We have an excellent relationship with NAB, however the bank has asked Viento to restore LVR levels as an urgent requirement.

The Syndicate does not have sufficient cash to repay the bank the required \$1.895 million to bring the LVR to 60%.

Viento believes that the Syndicate will be unlikely to recover unit value by maturity in October 2011 due to the soft property market and is considering alternative options for the Syndicate.

Investors may be invited to participate in a Unitholder Meeting to determine the future direction of the Syndicate.

Possible options for investors will be to:

- a) Continue with the current sell down strategy
- b) Extend the Syndicate term by two years and engage in an equity raising activity to restore the LVR to 60%

Investors will receive further information regarding the Syndicate and Unitholder Meeting in due course.

### Paralowie

The Coles lease at Paralowie expires in August 2012 and under its lease, Coles is not required to notify us of its intention to take up a further 5 year option until three months prior to the expiry date. We have encouraged Coles to exercise its option early but at this stage have not obtained this commitment. Should Coles not exercise its option in June 2012, the value of this centre will be severely affected. We are continuing to monitor this risk.

The occupancy rate is 97.9%.

### Table of Contents

Metro Property Syndicate	2
New Enterprise Property Syndicate	3
Première Property Syndicate	3
Viento Diversified Property Fund	4
Henley Brook Syndicate	5
Southern River Syndicate	6

## New Enterprise Property Syndicate

ARSN 107 008 739

In our Investor Update dated 14 April 2011, Viento proposed a return of some capital to investors subject to approval from the bank. Our financier, AXA, refused the request and as a result the Syndicate cannot make a capital repayment to investors following the sale of Cove Hill Shopping Centre.

We are continuing efforts to refinance the Syndicate with another bank and potentially distribute some capital to investors prior to the Syndicate maturity in June 2012.

The introduction of a café at Artarmon has been well received by the major tenant, URS. It is hoped that this will provide an added incentive to prospective tenants we are targeting for the remaining vacant space.

Our newly appointed agents are working hard to generate tenant enquiries and are focusing principally on smaller tenancies. It is imperative that the vacancy is significantly reduced before the property is offered for sale as investors in the current climate are heavily discounting partially vacant buildings.

## Première Property Syndicate

ARSN 102 949 486

The Millennium Cinema Complex is the last remaining property in this Syndicate and is earmarked for sale in the first quarter of this financial year.

Hoyts is vacating a nearby complex and has asked if we could accommodate additional screens at Millennium. As a result, we elected to delay the sale of this asset pending discussions with Council regarding the potential to extend above the existing structure.

Council has provided a positive response to this further development potential and this will now form an important component of the marketing campaign.

We have appointed agents to market the property on behalf of the Syndicate and once all advertising material is approved we expect the marketing campaign to commence in July. Subject to receiving an acceptable offer and due diligence completion to the satisfaction of the purchaser, we anticipate settlement to occur late September 2011.

### KEY DATA AS AT 30 JUNE 2011

	Metro Property Syndicate	New Enterprise Property Syndicate	Première Property Syndicate
Start Date	October 2003	June 2004	May 2003
End Date	October 2011	June 2012	May 2011
Units on Issue	7,650,000	22,650,000	10,150,000
Net Tangible Asset (NTA)	0.50	0.72	0.61
Distribution	Suspended	31 July 2011	31 July 2011
Portfolio Purchase Price	\$14,725,000*	\$23,390,500*	\$10,000,000*
Portfolio Valuation	\$13,900,000	\$16,700,000	\$13,400,000
Number of Properties	2	1	1
Weighted Average Lease Expiry by Income	3.1 years	8.9 years	7.3 years
Total Occupancy	98.4%	57%	100%

### FINANCE STRUCTURE

	Metro Property Syndicate	New Enterprise Property Syndicate	Première Property Syndicate
Financial Institution	National Australia Bank	AXA	National Australia Bank
Loan Amount	\$10,235,000	\$1,207,030	\$7,276,000
Term of Loan	30 June 2012	30 June 2011	31 December 2011
Gearing Ratio <sup>1</sup>	71.98%	6.82%	51.51%
Loan to Value Ratio (LVR)	Non Compliant	Compliant	Compliant
Current Interest Rate	8.13%	8.05%	8.10%
Interest	23% Variable 77% Fixed	100% Variable	100% Variable
Interest Cover <sup>2</sup>	1.21	1.34	1.82
Interest Times Cover Ratio (ITCR)	Compliant	Compliant	Compliant

\*Excluding acquisition costs. <sup>1</sup>Calculated in accordance with ASIC's Regulatory Guide 46. The gearing ratio indicates the extent to which a scheme's assets are funded by external liabilities.

<sup>2</sup>Calculated in accordance with ASIC's Regulatory Guide 46. The interest cover indicates a scheme's ability to meet interest payments from earnings. Note that the interest cover formula defined by ASIC is not the interest cover related formula (interest times cover ratio) adopted by our financiers.

# Viento Diversified Property Fund

ARSN 096 494 576

In June, the majority of properties in the Fund were externally valued. The value of the properties has decreased significantly and this has influenced the unit price of the Fund.

The properties have remained relatively stable in terms of tenancy and structure since their previous valuations. However, recent sales evidence of comparable buildings have significantly influenced the valuations of the properties. This recent sales activity clearly demonstrates a softening market in a number of property sectors.

As a result of decreased valuations and bank covenant requirements our strategy to restart distributions within the next 12 months may be delayed.

Our primary focus is to reduce vacancies and thereby improve cash flow for the Fund.

Cash will be utilised, in the first instance, in undertaking essential capital expenditure at each of the properties. This capital expenditure is essential to maintaining value in the Fund and increasing cash flow to enable the Fund to commence distributions to investors.

We are negotiating a refinance of the debt facilities with a three year term. Further information will be provided as the negotiations progress.

Our focus remains on improving the Fund in order to restart distributions to investors and open the Fund to withdrawals thereafter.

We are beginning to see improvement in the level of enquiry for office accommodation, particularly at Blacktown. With ongoing improvements to the properties by way of refurbishment and upgrades to building services, we will be better placed to attract more tenants at higher rental levels.

The sale of Oxley Mall is completed. This represents an important milestone in our overall strategy for the Fund.

## 11 Queens Rd, Melbourne VIC

The next step forward in our leasing strategy has commenced with the refurbishment of the vacancy of Level 8 (641 m<sup>2</sup>). The refurbishment includes repainting and the demolition of the partitioning that impeded the views across Albert Park Lake and the City. First impressions are important to tenants in the 500 m<sup>2</sup> plus market.

With vacancy rates in Melbourne CBD becoming tighter and recent major leasing deals completed in the St Kilda Road precinct, there is an expectation that leasing activity should increase in the next quarter.

## 14 Queens Rd, Melbourne VIC

Our leasing agents continue to actively canvass for new tenants for this building and have had a number of enquiries and inspections with new prospects.

This quarter we were successful in finalising a new 3 year lease on Level 3 with SSO Media (75 m<sup>2</sup>).

## Highviews Building, 81-85 Flushcombe Road, Blacktown NSW

The occupancy rate of the property is currently 63.05%. The leasing interest from prospective tenants remains strong with the asset manager currently fielding interest from a number of prospective tenants.

## Campbelltown City Centre, Campbelltown NSW

Leasing has been strong over the last quarter. New leases include a second bakery (60.5 m<sup>2</sup>), Shiva Traders (83.4 m<sup>2</sup>) and Macarthur Diversity (472 m<sup>2</sup>). In addition, a number of existing tenants committed to new terms including Westside Bakery (3 years), KC City Centre Barber (3 years), The Optical Shop (5 years) and Samuel Jones Legal Services (5 years).

## 34-36 Chandos Street, St Leonards NSW

We are currently undertaking two essential capital expenditure projects at the property, which include an upgrade of the electrical system and waterproofing upgrades to the roof.

## Oxley Mall Shopping Centre, Bowral NSW

The sale of Oxley Mall was finalised on 31 May 2011. The sale price of \$14,750,000 is a premium to the most recent external valuation and represents a positive move forward for the Fund. Sale proceeds have enabled us to achieve a significant reduction in the Fund's debt.

## Parkinson Plaza Shopping Centre, Parkinson QLD

Parkinson Plaza maintains good performance. We are continuing negotiations for an extension of the IGA lease in return for shade cloths in the car park. We believe that these initiatives will strengthen the centre's turnover, its value and ongoing attractiveness to a broader range of national tenants.

## Underwood Village, Underwood QLD

We continue to address the vacancy at Underwood and are in discussions with a gym operator to take Shops 8, 9 and 10. Once fully leased, it is our intention to sell this property in order to retire debt and make more funds available for capital expenditure on other properties of the Fund.

## 24 Chesterfield Rd, Mirrabooka WA

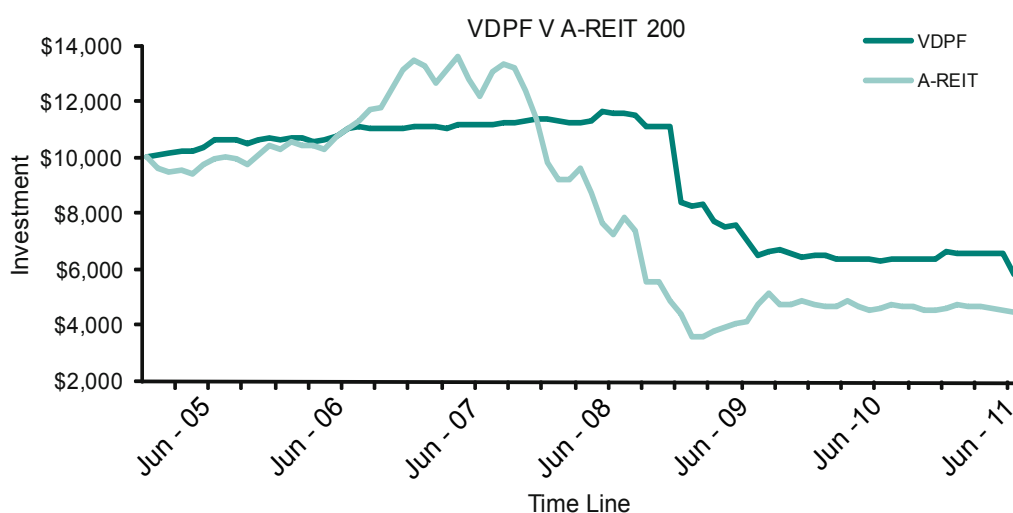
This property is 100% leased. We are continuing our negotiations with Centacare for a new 3 year lease and expect that this should be finalised next quarter.

## KEY DATA AS AT 30 JUNE 2011

Fund Structure	Open Ended
Units on Issue	80,771,219.7342
Unit Buy Price	\$0.5048
Unit Sell Price	\$0.4803
Distribution	Suspended
Portfolio Valuation	\$111,600,000
Number of Properties	9 as well as 1,834,000 ordinary units and 1,320,480 bonus units in the Southern River Syndicate. See page 7 for further information.
Weighted Average Lease Expiry (WALE) by Income	2.3 years

## OCCUPANCY RATES

14 Queens Road, Melbourne VIC	75%
11 Queens Road, Melbourne VIC	91%
24 Chesterfield Rd, Mirrabooka WA	100%
Parkinson Shopping Centre, Brisbane QLD	100%
Highviews Building, 81-85 Flushcombe Rd, Blacktown NSW	63%
Campbelltown City Centre, NSW	88%
34-36 Chandos Street, St Leonards NSW	100%
Underwood Village, Underwood QLD	75%
Devonport C-Max Complex, Devonport TAS	100%
Total	77%



## Stamp duties assessment

Viento has received a \$5.18 million duties assessment from the Victorian State Revenue Office (SRO). The assessment relates to the Fund's acquisition of units in the First Enterprise Property Syndicate, the V3 Property Syndicate and the 925 Property Syndicate in 2008. Viento disputes the entire amount of the assessment and lodged a notice of objection to the SRO assessment on 27 April 2011. For a range of reasons, we are optimistic about the prospect of a successful appeal and will provide regular updates on developments.

## FINANCE STRUCTURE

Financial Institution	NAB	AXA	AXA	Combined
Loan Amount	\$18.231m	\$35.355m	\$17.767m	\$71.353m
Term of Loan (years)	31 July 2011	31 July 2011	30 June 2011	n/a
Gearing Ratio <sup>1</sup>	55.43%	65.35%	59.47%	61.05%
Loan to Value Ratio (LVR)	Compliant	Compliant	Compliant	n/a
Weighted Average Interest Rate	9.65%	8.05%	6.33%	8.03%
Interest Fixed	100%	0%	94%	49%
Interest Variable	0%	100%	6%	51%
Interest Cover <sup>2</sup>	n/a	n/a	n/a	1.03
Interest Times Cover Ratio (ITCR)	Compliant	Compliant	Compliant	n/a

<sup>1</sup>Calculated in accordance with ASIC's Regulatory Guide 46. The gearing ratio indicates the extent to which a scheme's assets are funded by external liabilities. <sup>2</sup>Calculated in accordance with ASIC's Regulatory Guide 46. The interest cover indicates a scheme's ability to meet interest payments from earnings. Note that the interest cover formula defined by ASIC is not the interest cover related formula (interest times cover ratio) adopted by our financiers



# Henley Brook Syndicate

ARSN 114 592 040

Delays in issuing the subdivision and other development-related approvals by the City of Swan and state government agencies have resulted in an amended completion date from 2010 to December 2015.

## Lot Sales

Stage 1 is now completely sold out and Stage 2 has only 3 lots available.

## Milestones Achieved

- Subdivision approval was granted by an order of the State Administrative Tribunal for Stages 2, 3(a) and a portion of Stage 3(b) in January 2010.
- Subdivision approval was granted by the Western Australian Planning Commission for Stage 1 of the proposed development in March 2011.
- Stage 1 comprises 14 lots. Settlement of these lots is anticipated in August 2011.
- Stage 2 comprises 53 lots, 50 lots are under contract. Construction works are due to be completed by August 2011. Settlement for these lots is expected in October 2011.

## Planning

### (a) Applications

The subdivision application for the group housing sites (lots 105 and 106) was lodged with the City of Swan in January 2011. The application has been lodged with the Western Australian Planning Commission (WAPC) and comments have been received from all approval agencies.

Approval for this subdivision is expected in August 2011.

### (b) Local Structure Plan

The plan has been prepared and will be lodged once the land ownership and management issues are resolved with the Department of Lands with regard to the land forming the pipeline easement. We anticipate resolution within one month.

Final endorsement of the Local Structure Plan by the Western Australian Planning Commission is expected (after advertising, processing of comments and consideration) by September 2011.

## Engineering

### (a) Civil Works

Stage 1: Works were completed in early May (on schedule). Work for the lead-in sewer commenced in May with practical completion scheduled for June 2011.

Stage 2: The Acid Sulphate Soil tests yielded positive results and backfilling of the trenches was completed in April. The balance of the civil works for Stage 2 is due to be completed by August 2011.

### (b) Service Extensions

Extensive negotiations occurred throughout 2010. Construction of the water main and gas pressure main along Lord Street is close to practical completion. Pressure testing was conducted in May and installation is scheduled for completion by the end of June 2011.

## Distributions

Distributions are dependent on the bank toward loan advances and ratios. We are working closely with our Banking group, however the continuing fallout from the current market uncertainties means that the release of funds for distributions will only be allowed once our debt facility is repaid after the completion of Stage 3. We will continue to have funds released as soon as possible.

For details of expected returns and additional detailed data please refer to the RG 46 on our website [www.vientogroup.com](http://www.vientogroup.com)

## KEY DATA AS AT 30 JUNE

Start Date	December 2005
End Date	Estimated December 2015
Units on Issue	11,000,000
Purchase Price	\$12,500,000*
Latest Valuation	\$30,025,000 GST excl.
Distribution	Not commenced
Net Tangible Asset (NTA)	\$1.39

## FINANCE STRUCTURE

Financial Institution	National Australia Bank
Loan Amount <sup>1</sup>	\$15,287,786
Loan Term	31 December 2011
Gearing Ratio <sup>2</sup>	50.34%
Loan to Value Ratio (LVR)	Compliant
Current Interest Rate	10.92%
Interest	100% Variable

\*Excluding acquisition costs. <sup>1</sup>Loan facility limit is \$18m. <sup>2</sup>Calculated in accordance with ASIC's Regulatory Guide 46. The gearing ratio indicates the extent to which a scheme's assets are funded by external liabilities.

# Southern River Syndicate

ARSN 117 661 971

The development was scheduled for completion in 2009. Delays in issuing the subdivision and other related development approvals by the City of Gosnells and state government agencies have extended key milestones. We expect all all stages to be completed by June 2014.

## Lot Sales

	Stage 1	Stage 2	Stage 3/4
Total Lots	55	37	52
Lots Sold	54	35	13
Lots Available for Sale	1	2	39

Subdivision approval for Stages 1 to 7 was granted in November 2009 by the Western Australian Planning Commission. Construction to develop the land commenced in May 2010. Works completed to date include bulk earthworks, fill importation, trenching for the sewer and installation of sewer pipes.

## Engineering & Environmental

Civil works have been completed for Stage 1. Civil works for Stage 2 were completed in May 2011.

Completion of the water services is expected by September 2011.

Fibre optic telecommunication services will be installed as part of Stage 2 clearances and will be installed for the balance of the estate.

We expect land titles to be issued for Stage 1 lots in July 2011 and Stage 2 lots in September/October 2011.

Settlement of Stage 1 and 2 lots are expected to commence during August 2011 and continue for the following three months.

## Distributions

Distributions are dependent on the bank toward loan advances and ratios. We are working closely with our Banking group, however the continuing fallout from the current market uncertainties means that the release of funds for distributions will only be allowed once our debt facility is repaid after the completion of Stage 3. We will continue to have funds released as soon as possible.

For details of expected returns and additional detailed data please refer to the RG 46 on our website [www.vientogroup.com](http://www.vientogroup.com)

## KEY DATA AS AT 30 JUNE 2011

Southern River Syndicate	
Start Date	August 2006
End Date	Estimated June 2014
Units on Issue	10,000,000 (Ordinary) 3,000,000 (Supplementary) 7,200,000 (Bonus)
Purchase Price	\$14,337,000*
Latest Valuation	\$28,526,750 GST excl.
Distribution	Not commenced
Net Tangible Asset (NTA)	Ordinary: \$1.21 Bonus: \$0.30

## FINANCE STRUCTURE

Financial Institution	National Australia Bank
Loan Amount <sup>1</sup>	\$22,237,538
Loan Term	31 October 2011
Gearing Ratio <sup>2</sup>	57.60%
Loan to Value Ratio (LVR)	Compliant
Current Interest Rate	8.85%
Interest	100% Variable

*\*Excluding acquisition costs. <sup>1</sup> Loan amount includes Bonds. Loan facility limit is \$22.5m. <sup>2</sup> Calculated in accordance with ASIC's Regulatory Guide 46. The gearing ratio indicates the extent to which a scheme's assets are funded by external liabilities.*

## Riverbank Development



# VIENTO

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## PROPERTY

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ABN 51 095 920 648 AFSL 224663

The Responsible Entity for all Viento Managed Investment Schemes contained in this document is Viento Property Limited ABN 51 095 920 648 AFSL 224663.

## VIENTO GROUP CONTACTS

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**IMPORTANT INFORMATION:** The Responsible Entity for all Viento Managed Investments Schemes referred to in this document is Viento Property Limited ABN 51 095 920 648 AFSL 224663 (the Manager). The Manager has prepared and reviewed this investment update carefully and where the Manager has made assumptions, these were based on information available to the Manager at the time. The Manager does not guarantee the performance or success of each Managed Investment, distributions or the repayment of investors' capital. Some factors that affect results may be outside the control of the Manager or may not be reasonably foreseeable by the Manager and its advisers. This Investment update has been prepared for general information only. It does not take into account your current or future financial circumstances. You should consider these matters and read the Product Disclosure Statement (PDS) for each Managed Investment before you make an investment decision about holding or acquiring units in the Managed Investment. Nothing in this update is intended to induce you to acquire or dispose of your units in any Managed Investments.