

FOCUSED ON PROPERTY



Peter Stephensen

New Appointment

PFA are pleased to announce the appointment of Peter Stephensen as Asset Manager for the Company. Peter will take over from Matthew Madsen (as previously profiled) who will assume the role of Acquisitions Manager. Peter will be responsible for the asset management of the six assets owned by the three funds that comprise the PFA stable. He comes with a breadth of experience having worked for the past 17 years for a major international real estate agency. His roles with that company included that of centre manager for a number of major shopping centres and asset manager for a range of retail and commercial properties. He has first hand experience in all aspects in an asset manager's role including leasing, tendering, refurbishment, tenant liaison and facilities management.

CHANGING YOUR BANK DETAILS OR MOVING

Don't forget to let us know

To ensure that you keep receiving your monthly income distributions don't forget to advise us if you change your bank account details in order that the electronic credit distribution system does not reject the transfer. Likewise, if you are changing your mailing address (as shown on the Syndicate or Trust Registers) we need to be notified.

Any changes need to be notified to us in writing and signed by the applicant/s who signed the original application form.

INVESTOR SERVICES PERSONNEL

Who to contact?

If you have any queries about your investment, please contact our Manager - Investment Services, Bronwyn Risk. Bronwyn is responsible for investor liaison and the maintenance of investor records and income distributions.

FOR FURTHER INFORMATION CONTACT:

Bronwyn Risk

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INCOME DISTRIBUTION PROGRAM

Distributions to investors in The Metropolitan Collection continue to be in line with those forecast in the Prospectus.

PORTFOLIO ISSUES FOR INVESTORS IN THE NEW YEAR

In the light of possible future interest rate changes, the apparent improvement in the economic prospects of a number of overseas countries (particularly in Asia) and the likely future sustainable earnings of a number of new participants in the information technology sector, issues to be addressed by long term investors in this year will include a review of the allocations in portfolios to high technology stocks, overseas equities and fixed interest investments.

Whilst the prospects for the Australian investment property sector will be impacted by any significant change to long term interest rates and particularly listed property stocks which had significant markdowns in their trading prices during the second half of 1999 because of the dilutory effect of a number of large capital raisings and anticipated changes in interest rates, the market for the underlying assets of any property based managed investment scheme (real property) are currently very sound because of the satisfactory level of tenant demand in most markets, the ongoing reductions in the level of vacant space in almost all of the over supplied central business district office markets and a relatively low level of speculative development in all markets. The severe distortions that were caused in investment property markets in the early 1990's were substantially caused by the massive overbuild of speculative investment properties that were often constructed on sites that had been acquired at uneconomic prices.

Whilst there appears to have been some extraordinarily high prices paid for high value residential property in most Australian cities during 1999 an over-heating of this sector generally has no impact on investment property markets because the acquisitions are almost always made by owner occupiers.

We wish you successful investing in 2000.

THE METROPOLITAN

AN INVESTOR UPDATE

ISSUE No.2

YEAR 2000 COMPLIANCE, TAX REFORM, MANAGED INVESTMENTS ACT

YEAR 2000 COMPLIANCE

The three one-off transitional and compliance issues that kept the banking and finance and managed funds industries busy throughout 1999 has now been reduced to two. The Year 2000 (Y2K) compliance issue appears to have been addressed effectively across the board and it seems that the information technology systems of those sectors were successfully upgraded during the lead up to 2000 and were able to cope with the change of millennium.

It will probably never be known whether there was value in the cost to Australian businesses, governments and individuals of the extensive work that was done to ensure Y2K compliance (estimated to be \$12 billion). In many instances expenditure that would ultimately have been required at a future date was brought forward and therefore presumably investors, depositors, superannuates, insurance policy holders and users of government services can reasonably expect that the delivery of financial and government services into the future will not be affected by Y2K compliance problems.

Certainly the work that was done on PFA's systems during 1999 to ensure that they were Y2K compliant was effective and there has been a seamless transition from the 1999 year to the year 2000 in respect of this aspect of our operations.

TAXATION REFORM

Since our last Investor Update the proposed introduction of a Goods and Services Tax (GST) has been through the legislative process and is to be operative from 1 July this year.

The Australian Taxation Office is currently preparing and issuing the rulings that will determine the application of the tax in respect of the thousands of specific business issues that require clarification prior to 1 July.



The Vineyard Restaurant and Wine Bar, Coorparoo property

Issues that relate to property ownership that have not been addressed at the date of this report include how the GST will apply to a range of local government rates and taxes and State government taxes such as stamp duty. The tax will progressively apply to certain rents, outgoings, contributions and other receipts of The Metropolitan Collection (the Fund).

There are special transitional provisions which defer the application of GST on certain supplies, depending on such factors as when tenancy leases were entered into, the timing of market rent reviews, the presence of a GST review clause in leases and whether the recipient is entitled to an input tax credit.

The Fund's ability to recover or be compensated for the costs of the GST depends on the provisions of tenancy leases and the valuation process.

The Manager's legal and tax advisers have considered the provisions of the current leases of the Fund's three properties, and the application of GST to those contracts. Those advisers are of the view that the GST impact on distributions from the Fund should be minimal.

To assist in making the GST fundamentally cashflow neutral, any expenditure that the Fund incurs (which includes a GST component) will entitle it to an input tax credit.

The Manager will be responsible for the registration and lodgment of GST returns for the Fund.

REVIEW OF BUSINESS TAXATION

The second part of the "Review of Business Taxation" that was prepared by the Federal Government appointed Ralph Committee was released in late September and the issues contained in it are currently being addressed by the parties affected by its recommendations including the Government.

The Ralph Committee's recommendations include the following:

- Certain investment trusts may be taxed as corporations;
- It appears that whilst the issue has not yet been legislated that private trusts and trusts that are not classified as "Collective Investment Schemes" will be taxed as corporations (and receive franking credits for any tax that is paid) but trusts that:
 - distribute all of their taxable income;
 - are classified as Collective Investment Schemes; and
 - carry on an eligible investment business,
 will continue not to be taxed as entities but their distributed income will be assessable in the hands of investors (as it currently is). The important issue for investors in The Metropolitan Collection is whether or not the Fund will be classified as a Collective Investment

**YEAR 2000 COMPLIANCE,
TAX REFORM, MANAGED
INVESTMENTS ACT
CONTINUED**

Scheme. The definition of a Collective Investment Scheme is currently being discussed between representatives of the managed funds industry, their legal and accounting advisers and government.

- For capital gains tax purposes there will be no consumer price indexation of the cost base of any asset or investment acquired after 1 October, 1999.
- It is proposed that accelerated depreciation rates for such items as plant and equipment in investment properties be replaced with "effective life" rates. This will reduce the percentage of tax advantaged income that is distributed to investors in the Fund.

Already legislated changes to the Income Tax Assessment Act have reduced the rates of personal income tax and increased the threshold at which the higher marginal rates of taxation apply. These two measures are designed to compensate tax payers for the introduction of the GST and will also be an offset for the reduction in tax advantaged income distributed to investors in the Fund because of the proposed changes to depreciation rates.

We expect that the tax issues relating to trusts will be clarified by the middle of this year and will advise you of what the ongoing situation in respect of The Metropolitan Collection will be at that time.

MANAGED INVESTMENT ACT (MIA)

The transitional period for the Managed Investment Act concludes on 30 June this year. By that time the roles of the Manager and Trustee of most public funds must be merged and the role, duties, responsibilities and obligations of the Trustee and Manager are to be undertaken by a single responsible entity.

The single responsible entity must be licensed by the Australian Securities and Investments Commission and have adequate levels of professional indemnity and fraud insurance.

The deeds under which the Syndicate and Trust that comprise The Metropolitan Collection must be amended to include all the provision of the Managed Investment Act and will thereafter be known as constitutions.

It is the Manager's intention to apply to be the responsible entity and that the Trustee (Trust Company of Australia Limited) have the ongoing role as the Custodian of the Fund. As Custodian, Trust Company will hold the titles to the Fund's properties and its other assets on behalf of Investors.

The costs of conversion of the Fund to a managed investment scheme were allowed for in its future cashflows when it was established.

THE METROPOLITAN COLLECTION – PROPERTY UPDATES

**ANZAC SQUARE
COMPLEX**

The Anzac Square complex has four components in its six low rise towers:-

- Commercial Offices;
- Retail Arcade;
- Residential Apartments;
- Four Star Apartment Hotel.

The element that is owned by The Metropolitan Collection is the commercial offices. Recent press coverage of the sale of the residential apartments and proposed sale of the retail arcade have no impact on your investment.

**ANZAC SQUARE
COMMERCIAL
OFFICES**

*Corner Edward and Adelaide Streets,
Brisbane*

Energex Retail, MacGillivrays Solicitors and Harvey World Travel are now well established tenancies in the Fund's property.

Since the settlement of the commercial office component of the Anzac Square complex, the retail component has opened and is providing a new pedestrian thoroughfare linking the Adelaide and Edward Streets intersection to Central Railway Station. The main focal point of the retail component is the Atrium Food Court, which provides a bright open space in which visitors to the complex, its



Atrium Food Court

commercial tenants and the residents of the apartments and apartment hotel may to sit, relax and enjoy a coffee, light snack or a more substantial meal.

The 41 luxury one, two and three bedroom residential apartments that comprise the residential component of the complex have now been completed. The majority of them were sold prior to practical completion. The four star apartment style hotel opened in August. It is expected that the hotel will cater essentially for the corporate traveller, given its convenient central city location.

The vendor has now concluded an excellent refurbishment of the entire complex, which makes Anzac Square an important entry in Brisbane's register of heritage buildings.

Both the Heritage Council and the Brisbane City Council have given their approval for the use of the Fund's second ground floor Adelaide Street frontage shop as a coffee outlet which will attract a higher rental than the previously budgeted use. Negotiations are taking place with prospective operators.

**THE PRECINCT –
COORPAROO**

*Corner Harries Road and Holdsworth Street,
Coorparoo, Brisbane*

The National Australia Bank's central mortgage processing centre occupies the office component of your property for a lease term of ten years. The Bank's fitout is an open plan configuration which has facilitated the effective flow of work throughout the centre. Feedback from the Bank indicates that employee morale has benefited from the relocation of the facility to a suburban location with adjoining retail and commercial facilities. Strong interest in the retail shops has secured the following leases to date:

- On Time Copy Centres, which is a franchised 24-hour copy, production, printing and design centre.
- Taste of Orient, an Asian cuisine, noodle bar and sushi dine in and takeaway restaurant.
- The Vineyard Restaurant and Wine Bar, a wine bar that will complement the existing food outlets and café.
- Café Innsein, a European style café and coffee lounge that also provides a catering service.



Vicki McNaughton, Proprietor, Cafe Innsein

- Embers Woodfired Pizza, a licensed pizza restaurant and takeaway.
- Mussels Fish and Chippery, a chain of takeaway shops in South East Queensland offering quality fish and chips, burgers, drinks and combination packs of seafood. We are currently finalising lease documentation with a video hire operator and a take-away chicken outlet. If successful negotiations are finalised, the retail component of the property will be fully leased.

The vendor provides rental support on the vacant areas for a period of up to five years from the settlement date.

Immediately to the north of your property, construction has commenced on a major townhouse project which when completed and sold will broaden the prospective customer base of the retail shops.

**ESTABLISHMENT OF NEW FUND –
THE CAPITAL COLLECTION**

We are pleased to advise the establishment of a new PFA managed fund, The Capital Collection – Diverse Sector Fund. This fund joins The Metropolitan Collection and the Garden Square Joint Investment and gives the PFA stable of funds with total assets of \$130M.

The Capital Collection acquired The Post Office Square (Brisbane) and Homeworld

Centre (Canberra) properties for a total of \$73.34M in December, 1999.

There is Manager's stock available in The Capital Collection and investors in The Metropolitan Collection who would like information about that fund should contact Bronwyn Risk or their broker or adviser.

**MACGREGOR
PROPERTY**

544 Kessels Road, MacGregor, Brisbane

Stage 1 of the extension of the MacGregor property has now been completed. As outlined in the prospectus, this stage incorporates seven new tenancies on the site. Construction was completed within the required timeframe and settlement with the vendor has taken place.

The units are of excellent quality and appearance and range in size from 230m²

to 300m². Each unit contains an air-conditioned mezzanine office component. Access to the warehouse areas of each unit is provided by a full height roller door. The units will suit the needs of a variety of prospective businesses that require warehouse/office/showroom accommodation as they have good exposure and access.

Under the terms of the original contract, the vendor is to provide rental support for the vacant areas for a period of up to 12 months from the settlement date of this first stage. Negotiations are



Construction of Stage 1 now complete

currently underway with prospective lessees.

One of the property's strengths is the diversity and quality of the existing tenancy mix. A number

of rent reviews have been completed since the Fund acquired the property and its current tenancy schedule is as follows:-

Tenant	Area M ²	Annual Rent \$	Next Review Date
Vox Retail (Chandlers)	2,417	357,855	01/06/00
Tracksons Lighting	186	66,910	01/10/00
Mintshire Pty Ltd	79	22,728	01/07/00
Bob Jane T-Marts	448	105,280	09/09/00
Bretts – Main Building	3,422	262,640	01/04/00
Bretts – Storage Yard	5,560	75,000	01/04/00



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