



FOLKESTONE GREEN SQUARE HOTEL FUND

INVESTOR UPDATE – DECEMBER QUARTER 2017

FUND UPDATE

The Fund was launched in November 2017 and closed oversubscribed in December 2017. We are delighted with the positive response from our high net-worth, family office and financial advisory clients.

Fund Strategy

The Fund's strategy is to acquire a 144 room hotel in Green Square, Sydney on a fund through basis. The Fund owns the land, has entered into an agreement for lease with Veriu, and will pay a Development Fee to the Developer for development of the Hotel.

The Fund aims to generate sustainable income and the potential for capital growth. The Fund is forecast to provide:

- an annualised distribution yield of 7.0 per cent in both FY18 and FY19;
- the potential for capital growth through valuation uplift, asset management and improving hotel market fundamentals; and
- an equity IRR of 12.6 per cent per annum (post-fees, pre-tax) over the life of the Fund.

PROPERTY UPDATE

Leasing

The Hotel is 100 per cent leased to Veriu Hotels and Suites. The lease is set to commence 30 days following practical completion.

Planning & Construction

The Project received final planning approval via a Section 96 Modification to Development on 20 November 2017 (Approval).

On 22 December 2017, Council confirmed all deferred commencement conditions had been satisfied, essentially 'activating' the consent. These deferred commencement conditions involved minor alterations to the design, payment of levies and provision of an amended Plan of Management for the operational aspect of the completed Hotel.

To progress with demolition works, a Construction Certificate - Demolition is required (CC1). Issuance of CC1 has been delayed by Sydney Trains who are required to provide their consent to the construction plans prior to any works commencing on site given the proximity of the site to the underground rail corridor linking the

PERFORMANCE

as at 31 December 2017

Forecast FY18 Distribution ¹ (% p.a)	7.0
Forecast Equity IRR ² (% p.a)	12.6
Property Value ³ (\$m)	43.5
NTA on Paid Units (\$)	0.50

1. Annualised
2. Post-fees, pre-tax over life of Fund
3. As if Complete Day 1

FURTHER INFORMATION

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CBD to Sydney Airport.

Engagement with Sydney Trains has been challenging. A request for review containing plans and points for clarification was sent to Sydney Trains in October 2017. It wasn't until early December 2017, that the developer and builder received a preliminary response from Sydney Trains despite numerous follow-ups. A key point of contention was Sydney Train's requirement for a dilapidation report to be prepared on a stretch of tunnel near the site which the Developer and Builder considered unreasonable due to:

- the distance of the site from the tunnel;
- the fact no basement, significant ground works or rock anchors were proposed in the construction plans; and
- the fact Sydney Trains could not commit to how long it would take for access to be granted to the tunnel to undertake the surveys.

Sydney Trains did not confirm that the dilapidation report was still required until mid-January 2018. Access to the tunnel was immediately requested and we are waiting for a time to be scheduled. Once a time is granted, the dilapidation report will take a week to prepare and will be submitted to Sydney Trains for approval.

All other CC1 requirements have been met. An allowance of approximately 10 weeks to the end of April 2018 has been made to achieve CC1 approval and to commence demolition works in May 2018.

Meanwhile subsequent approvals required for the next Construction Certificate – Ground Works & Structure have been escalated and are close to being satisfied. Ground works are anticipated to commence in June 2018 which is four months later than originally envisaged albeit within time contingencies allowed for in the

feasibility assumptions.

Timetable

Due to the Sydney Trains delay, the programme has increased by approximately three months which would see practical completion of the Hotel in August 2019 (previously May) and the second capital call occurring in August 2019 rather than May 2019 as per the Information Memorandum (IM). The Developer hopes to make that time up through the construction phase. The Fund structure provides for Land Rent to be payable by the Developer to the Fund to compensate for any delays whilst the Hotel is under construction. Therefore, the forecast Fund investment returns should not be impacted by the delay.

HOTEL MARKET

The Australian tourism market continues to be strong. According to the ABS's latest visitor arrival data (as at November 2017), there were:

- 776,900 visitors in November 2017, an increase of 7.1 per cent compared to November 2016; and
- 8.8 million visitors in the year ending November 2017, an increase of 7.1 per cent, compared to the previous year.

Leisure arrivals continue to drive the growth in international arrivals, up 7.3 per cent in the year.

Between the year ending November 2013 and year ending November 2017, the number of Chinese visitors to Australia was over 8 times that of New Zealanders visiting Australia (86.9 per cent vs. 10.7 per cent). China has been NSW's top source for visitors since November 2015, taking over the lead position from New Zealand.

India and USA were the other two markets with strong growth rates in tourism visitors to Australia over the same period, up 75.3 per cent and

63.6 per cent, respectively (Figure 1).

In the year ended November 2017, NSW received over 3.3 million international short-term visitor arrivals (Table 1).

All of the top 10 source markets for tourism visitors to NSW recorded growth in arrivals for the year. The strongest growth rates were recorded by Hong Kong (up 14.5 per cent), followed by India (up 14.3 per cent), China (up 14.3 per cent) and USA (up 11.5 per cent).

The top ten source markets for NSW for the year grew by 7.4 per cent and accounted for 71.2 per cent of all international short-term visitors to NSW.

According to CBRE Research and STR, the Australian hotel market recorded a modest increase in RevPAR for year ending 2017 of 2.8 per cent (\$143), driven by an increase in occupancy of 0.9 per cent (76.2 per cent) and an increase in Average Room Rate of 1.8 per cent (\$187)¹. Top performing regions were Cairns and Canberra with RevPAR increases of 9.5 per cent and 8.2 per cent respectively for year ending 31 December 2017.

International visitor arrivals reached a record high of 7.9 million, an increase of 7.0 per cent from 2016, whilst domestic overnight trips were also up by 7.0 per cent to 95.9 million. Spending by international visitors in the year to September 2017 was \$28.5 billion, up 10.0 per cent on 2016, whilst overnight spend on domestic trips increased 7.0 per cent to \$63.7 billion.

Whilst the last quarter of the year saw \$400 million worth of hotels transact, 2017 recorded the lowest annual sales volume since 2011 (Figure 2).

Offshore investors continue to be the dominant buyer of Australian hotels.

¹ Australia Hotel Market View Quarter 4, 2017

Figure 1: Top 10 Source Markets Time Series – Arrivals To NSW: 2013 - 2017

Percentage change year ending November 2017 vs. year ending November 2013

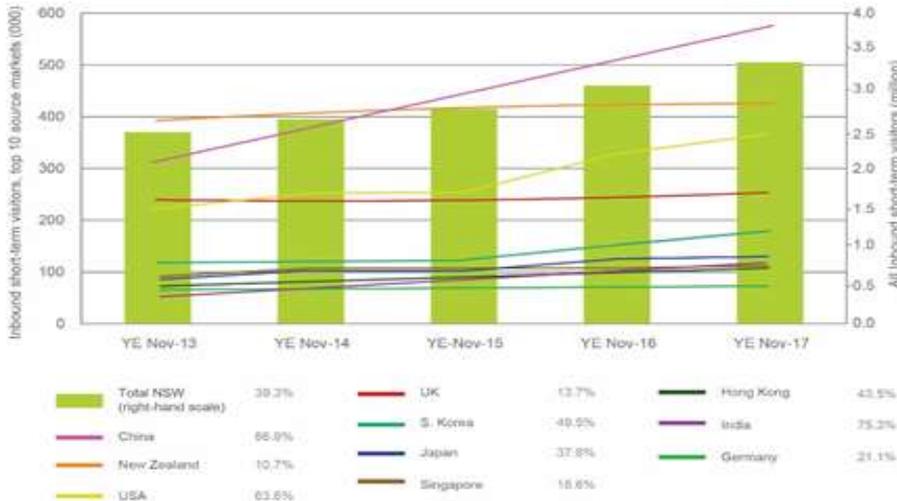


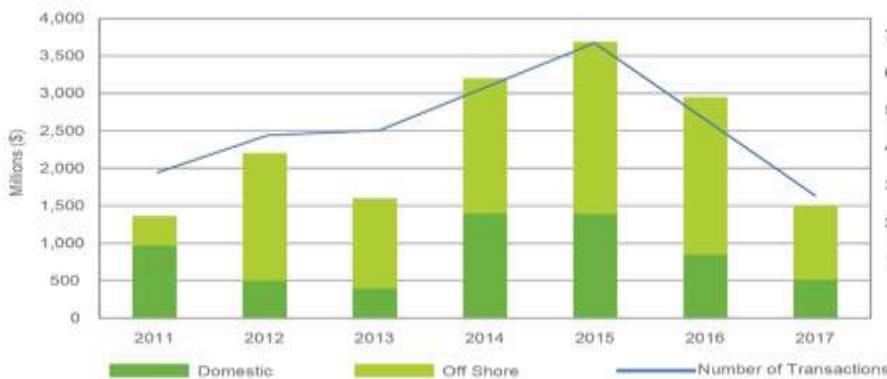
Table 1: Top 10 Source Markets – Arrivals To NSW: 2017

Year Ended November 2017					Month of November 2017				
Country of Origin	Rank	No. of Visitors	YE Nov-2017 vs YE Nov-2016	Share of NSW visitors	Country of Origin	Rank	No. of Visitors	Nov-17 vs Nov-16	Share of NSW visitors
China	1	570,470	14.3%	17.0%	China	1	40,140	-5.0%	13.7%
New Zealand	2	429,820	0.2%	12.8%	New Zealand	2	37,870	0.9%	12.9%
USA	3	379,320	11.6%	11.3%	USA	3	36,840	5.6%	12.6%
UK	4	274,400	2.3%	8.2%	UK	4	26,320	7.1%	9.0%
S. Korea	5	184,150	4.9%	5.5%	S. Korea	5	18,290	4.8%	6.2%
Japan	6	127,670	2.1%	3.8%	Japan	6	11,690	-0.2%	4.0%
Singapore	7	113,690	2.4%	3.4%	Singapore	7	10,670	5.5%	3.6%
Hong Kong	8	109,840	14.9%	3.3%	India	8	9,550	17.0%	3.3%
India	9	106,250	14.3%	3.2%	Canada	9	8,220	5.7%	2.8%
Germany	10	86,380	6.9%	2.6%	Hong Kong	10	7,940	18.7%	2.7%
Top 10 source market TOTAL	-	2,381,990	7.4%	71.2%	Top 10 source market TOTAL	-	207,530	2.6%	70.8%
NSW	-	3,347,680	8.3%	-	NSW	-	293,220	4.7%	-

Note: Top 10 source market total is not necessarily made up of the same countries in the previous year.

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Figure 2: Hotel Sales Above \$10 Million: 2011 - 2017



Source: CBRE Research

dominant buyer of Australian hotels.

Sydney Hotel Market

According to STR, Sydney City, represented by a sample size of almost 21,100 rooms (101 hotels and serviced apartments), reported an average room rate of \$261 for 2017, an increase of 7.0 per cent over 2016. Occupancy was reported at 88.6 per cent which was an increase of 0.6 per cent over 2016. RevPAR effectively increased by 7.7 per cent over the period which is the highest annual increase Sydney City has experienced since the Sydney Olympics.

According to CBRE, Sydney is trading at ~20.0 per cent above the national room rate average and is showing no signs of slowing down¹. Such is Sydney's popularity that CBRE believe that operators could afford to increase room rates on a larger scale with limited impact on occupancy.

Recent supply additions include a 4 star Travelodge in Mascot (209 rooms), a 5 star Sofitel Convention Centre in Darling Harbour (616 rooms), a 4 star Branksome Apartments in Mascot (150 rooms) and a 4 star Curio Hotel (Marriot) in the Sydney CBD (182 rooms). A boutique hotel called the Felix Hotel (158 rooms), situated in Mascot, is forecast to open in February 2018.

The hotel investment market in NSW and Sydney was subdued in 2017. According to Colliers International there were eleven transactions in NSW and only four in Sydney including the Mercure Sydney Airport (271 rooms, \$282,000)². The other Sydney transactions included the Intercontinental Sydney in Double Bay (140 rooms, \$750,000 per room), Quality Hotel CKS in Wolli Creek (120 rooms, \$267,000 per room), and Four Points by Sheraton Central Park (297 rooms, \$488,000 per room).

² Hotel Sales in Australia – 2017: February 2018



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