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BlackWall Woods PIPES Fund

October 2015

A preferred equity investment in a Western Sydney entertainment centre

PIR | The Authority in Property Funds Research & Ratings

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IMPORTANT NOTICE

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Disclaimer & Disclosure of Interests

Note: This report is based on the BlackWall Wood PIPES PDS, dated 10 August 2015, together with other information provided by BlackWall as at September 2015.

Preferred equity investment

BlackWall Woods PIPES

The Woods PIPES Fund (*Fund*) is a single-asset, closed-ended fund. Its Responsible Entity (*RE*) is BlackWall Fund Services, a subsidiary of ASX-listed BlackWall Property Funds Ltd (collectively *BlackWall*) which manages over $500M of real estate across Australia.

The Fund is raising $5M in Property Income and Participating Equity Securities (PIPES), a form of preferred equity investment. Each PIPES represents a single unit in the Fund and the issue price is $1.00 per PIPES. As there are no set-up fees or up-front costs, NTA is also $1.00. An investment in PIPES will be illiquid and investors must stay invested throughout the seven-year term.

In addition to the PIPES, the property is subject to a $7M senior debt facility, representing a 50% senior LVR. As preferred equity, PIPES rank between equity & senior debt in the asset's capital structure. Investors receive distributions and repayments of capital after the Fund meets its obligations to the bank. The $2M equity held by the property owner provides a buffer for the PIPES.

PIPES investors will be entitled to:

1. A fixed 8% pa cumulative distribution, paid quarterly in arrears (*PIPES Interest*). Refer to *Fund Overview* for details.
2. A share of potential capital upside when the Fund is terminated (the *PIPES Bonus*). This is calculated as 20% of the asset's value in excess of ($16M + capex + transaction costs).

Upon maturity of the PIPES, PIPES holders will be entitled to a return of their principal plus any applicable capital upside.

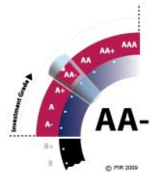
The property is an entertainment complex, the Woods Action Centre, located at 824-850 Woodville Road, Villawood (in western Sydney). The property was recently valued at $14M, equating to a 10% cap rate. Metrics include: (1) 87% occupied by four entertainment tenancies, with the remaining space comprising a month-to-month tenancy and a cafe under construction; (2) WALE of 2.2 years as at October 2015; and (3) a mix of fixed and CPI rent reviews. The key issue will be extending leases as they come up for renewal. Leasing success is likely to be a significant valuation catalyst, and based on initial passing income, the property has a more than $0.5M cashflow buffer (c. 33% of gross income) before PIPES distributions come under threat.

Assuming occupancy and income can be maintained, PIR expects an overall IRR in excess of 8%. Cap rate compression may produce a higher IRR in the range of 8%-10%. We present a comparison to other investments below.

Investor Suitability

The Fund is suitable to investors who desire regular income returns with an investment horizon of seven years. As a preferred equity product, PIPES offer a degree of capital protection in exchange for less upside than ordinary equity. Investors must be comfortable with the risks associated with a geared vehicle backed by a Western Sydney leisure/entertainment asset. As the Fund is illiquid, investors must also be prepared to remain fully invested throughout its life.

Investment Rating



The above rating must be viewed in the context of comparable funds and not across all products. See Appendix for ratings definitions.

Offer Details

Date of PDS	10 August 2015
Investment Period	7 years
Min. Investment	No minimum
Liquidity	Illiquid
Distributions	Quarterly
Initial unit price	$1.00
Distribution pa (%)	8.0%

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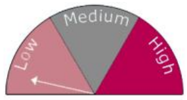
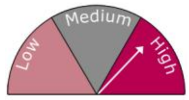
Risk/Return Profile

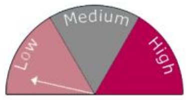
Capital Return



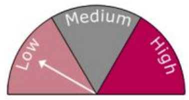
Income Return



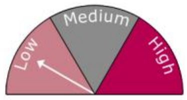
Capital Return Volatility



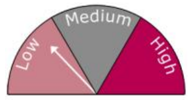
Income Volatility



Risk to Capital



Tax Effectiveness



Product	NTA	Fees pa	Entry/exit fee	Income pa	Capital upside	IRR (est)
Term Deposits[1]	$1.00	No	No	Up to 3.5%	None	n/a
Equity in syndicate[2]	$0.86-$0.93	0.5%-0.7%	Yes	7.5%-8.5%	Full upside	9%-12%
BlackWall Woods PIPES	**$1.00**	**NIL**	**No**	**8.0%**	**Limited upside**	**8%-10%**

[1] Bank term deposits for $250,000-$1M over 5 years. [2] Typical ranges based on recent products seen by PIR. NTA typically reduced by up-front costs. Income refers to first full-year distribution.

Key considerations

Management: BWF is a vertically integrated property funds manager. The company's management team has been involved in development, management and consultancy of income-producing real estate since the 1990s. As at June 2015, it managed 10 real estate funds, which collectively controlled over $500M worth of property. The average IRR from the five previous PIPES funds has been 12.8%.

Underlying property: The Fund's sole asset is an entertainment complex, the Woods Action Centre, located at 824-850 Woodville Road, Villawood (in western Sydney). The property was recently valued at $14M, equating to a 10% cap rate. Key metrics include: (1) it is 87% occupied by four entertainment tenancies, with the remaining space comprising a month-to-month tenancy and a cafe currently under construction; (2) WALE of 2.2 years as at October 2015; and (3) a mix of fixed and CPI rent reviews.

Investment structure: An investment in the Fund will take the form of Property Income and Participating Equity Securities (PIPES), a form of preferred equity investment. PIPES rank between equity & senior debt, with the equity being held by WRV Pty Ltd, another fund managed by BlackWall. The PIPES are secured by a second-ranking mortgage over the asset (the *PIPES Mortgage*). Essentially, PIPES offer a degree of capital protection in exchange for less upside than ordinary equity.

Senior debt: In addition to the PIPES, the property is subject to a senior debt facility with an LVR of 50%, which must be refinanced before it expires in May 2018. Investors will receive distributions and repayments of capital after the Fund meets its obligations to the bank. The property owner's $2M equity provides a buffer for PIPES capital.

Fund term & liquidity: The Fund's term is seven years, after which the PIPES will be redeemed by the equity owner. If this does not occur, the RE will sell the property and repay PIPES holders out of net proceeds. While PIPES are transferable, holders have no right to request redemption and should expect to remain fully invested during the term.

Fees: A strong feature of the Fund is that PIPES investors do not pay any upfront or ongoing management fees. Similarly, there are no disposal or performance fees. Normally, these would reduce returns.

Starting NTA of $1.00. Typically, a traditional property syndicate would charge establishment/acquisition fees, stamp duty, and other setup costs that would dilute the initial NTA (ranging from $0.86-$0.93 per unit). In this case, the starting NTA is $1.00 per unit.

Expected returns: PIPES holders are entitled to fixed distributions (*PIPES Interest*) of 8% pa, paid quarterly after property expenses, scheme expenses, and interest on senior debt. If the Fund is unable to make a distribution, the payment obligation will accrue and interest will be payable at 8% pa until the outstanding distributions are paid.

PIPES holders may also receive a share of capital gains when the Fund is terminated (the *PIPES Bonus* – see *Fund Overview* for details). Conversely, investors run the risk that the sale price may be inadequate to fully repay the PIPES. For this to occur, the asset's value must decline by over $2M. PIR's analysis suggests that, so long as the asset remains fully leased, PIPES capital is unlikely to be at risk.

Assuming occupancy (and hence income) can be maintained at current levels, PIR expects an overall IRR in excess of 8%. Cap rate compression may produce a higher IRR in the range of 8%-10%.

Income buffer: Based on initial passing income, the property has a $0.5M+ cashflow buffer (c. 33% of gross income) before the fixed PIPES distribution comes under threat. Refer *Performance Analytics*.

Risks: Returns depend on a single asset and may be lower if: (a) economic or market conditions significantly deteriorate; (b) the Fund fails to achieve a satisfactory sale price, or (c) the Fund fails to re-lease expiring tenancies.

Key Qualitative Criteria

Management	
Track record	★★★★☆
Investment process and philosophy	★★★★☆
Corporate Governance	★★★★☆
Product	
Structure	★★★★☆
Fees	★★★★★
Liquidity	★☆☆☆☆
Leverage	★★★★☆

Investment Profile

Number of properties	1
Geographic exposure	Western Sydney
Property sector	Entertainment
Investment type	Preferred equity
Target return	8% pa plus share of potential capital gains

2.Fund Overview

Offer overview

The Woods PIPES Fund is a single-asset, closed-ended fund with a seven-year term. An investment in the Fund will be illiquid and investors must stay invested for its entire term.

The Fund is raising $5M in Property Income and Participating Equity Securities (PIPES), a form of preferred equity investment. Each PIPES represents a single unit in the Fund. The issue price is $1.00 per PIPES. In the absence of transaction & up-front costs, NTA is also $1.00. There is no minimum investment amount for investors.

The PIPES will be used to refinance a $5M loan provided by the largest equity holder. The offer is fully underwritten and new investors will progressively be issued PIPES upon receipt of their investment monies and be entitled to pro-rated quarterly distributions.

PIPES are property securities with characteristics of both debt and equity. PIPES holders' capital and their base returns are payable from Net Property Income before any fund management fees. The owner's equity acts as a buffer protecting PIPES capital (a characteristic of debt). PIPES holders also share with the property owner in any growth in capital value (a characteristic of equity). PIPES has a unique advantage relative to conventional property syndicates in that it allows investors to gain exposure to commercial and retail property without upfront dilution in contributed equity.

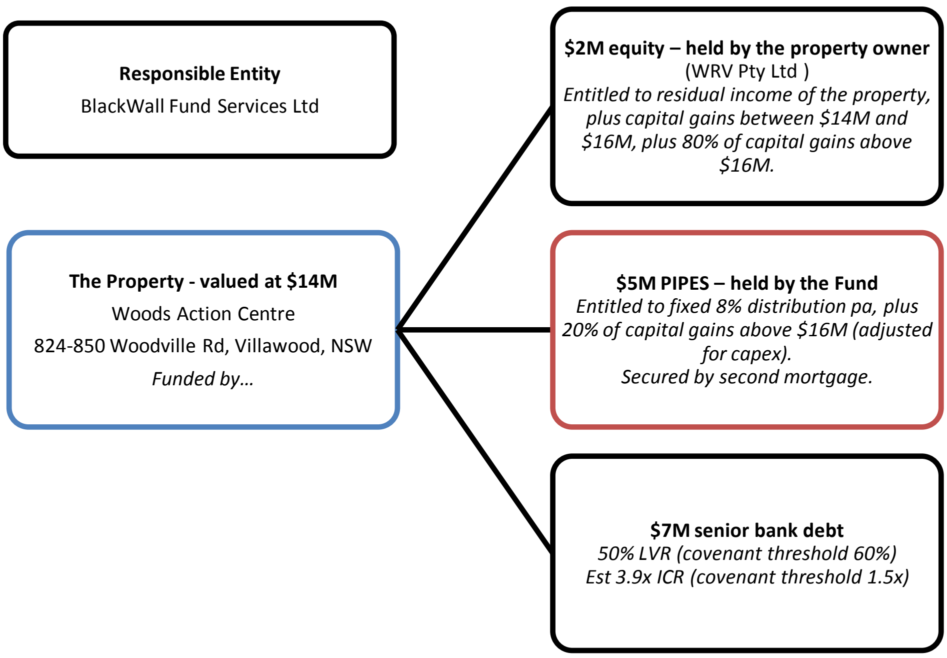
Preferred Equity and the PIPES Structure

As a preferred equity product, PIPES rank between equity & senior debt in the asset's capital structure, with the equity being held by WRV Pty Ltd, another fund managed by BlackWall. PIPES investors will be entitled to:

1. A fixed 8% pa distribution, paid quarterly in arrears (*PIPES Interest*). If the Fund is unable to make a distribution, the payment obligation will accrue and interest will be payable at 8% pa until the outstanding distributions are paid.
2. A share of potential capital upside when the Fund is terminated (the *PIPES Bonus*). This is calculated as 20% of the asset's value in excess of ($16M + capex + transaction costs). The remaining upside goes to the property owner.

The PIPES are secured by a second-ranking mortgage over the asset (the *PIPES Mortgage*) and the Fund will have control over the asset for the duration of the investment. The RE will sell the asset if the PIPES are not redeemed at the end of their term. Figure 1 summarises this structure.

Figure 1: Capital structure



Source: BlackWall/ PIR

The asset

The Fund's sole asset is an entertainment complex, the Woods Action Centre, located at 824-850 Woodville Road, Villawood (in western Sydney). The building has been independently valued at $14M by Herron Todd White. Its key metrics include:

- 87% occupied by four leisure/entertainment tenants: a bowling centre, a go-kart raceway, an indoors rock climbing gym, and a children's playground.
- The remaining space is occupied by a furniture store on a month-to-month lease and a new café area that is currently under construction. The RE has advised PIR that it is in discussions with potential tenants for these spaces.
- The largest tenant (anchoring 41% of lettable area) is AMF Bowling, a subsidiary of ASX-listed Ardent Leisure.
- WALE of 2.8 years as at March 2015 (approx. 2.2 years as at October 2015).
- Rents subject to annual increases of either CPI or, in the case of AMF Bowling, the greater of CPI and 3%. Refer to the *Property* section for more detail.

Fund financials

Below, we summarise the financial projections provided by the RE. The priority of payments runs in the following order:

1. Property expenses, senior bank debt, and scheme expenses.
2. PIPES Interest.
3. The funds management fee.
4. Leftover income goes to the property owner.

From the perspective of PIPES investors, the key point is that the property has a more than $0.5M cashflow buffer (equating to circa 33% of gross income) before the fixed PIPES distribution comes under threat.

Figure 2: Summary 12-month P&L

Net property income	**$1,343,000**
Less: Scheme expenses	($20,000)
Less: Interest on bank debt	($335,000)
Income available for PIPES holders	**$988,000**
PIPES Interest	($400,000)
Income buffer before PIPES Interest at risk	**$588,000**
Less: Funds management fee	*($72,500)*
Net profit - to property owner	*$515,500*

Note: The income shown above is slightly higher than the PDS, as it reflects AMF's latest fixed rent review.

Source: BlackWall/ PIR

Leverage

In addition to the PIPES, the property is currently subject to a senior debt facility, which expires in May 2018. The RE must refinance the facility by then.

The debt facility Loan-to-Value Ratio (LVR) is 50%, which compares to a bank-imposed LVR covenant of 60%. PIR estimates that the initial Interest Coverage Ratio (ICR) will be 3.9x, which is well above the bank covenant requirement of 1.5x. The ICR is calculated as net property income divided by interest expense.

As noted above, PIPES are subordinated to the senior debt facility – investors will receive their distributions and repayment of capital after the Fund has met its obligations to the bank. The equity held by the property owner provides a buffer for the PIPES.

Interest rate hedging

Given current market conditions, PIR regards it as ideal for managers to lock in their debt costs by hedging 100% of their debt (or borrowing at a fixed base rate), while simultaneously locking in debt facilities for the duration of their fund.

In this case, the RE has entered into an interest rate swap to fix the base rate on the entire debt facility until December 2019. Debt costs may vary when the debt facility expires in May 2018, and again when the interest rate hedge expires.

Figure 3: Key debt metrics

Maturity	May 2018
Asset value ($M)	14.0
Debt facility ($M)	7.0
Initial LVR (%)	50%
Loan covenant (%)	60%
Headroom to covenant (%)	17%
Interest rate hedge on debt	Fully hedged until December 2019
All-in interest rate (%)	4.79%
ICR (NPI/interest expense)	3.9
ICR covenant (x)	1.5
Headroom to ICR covenant (%)	62%

Source: BlackWall/ PIR

Repayment of capital at end of term

Upon maturity of the PIPES (at the end of Year 7, expected to be July 2022), the property owner must discharge the PIPES Mortgage by paying out scheme expenses, the $5M PIPES investment, any accrued but unpaid PIPES distributions, and any capital upside to which PIPES holders are entitled.

If the property owner fails to discharge the PIPES Mortgage, the RE will sell the property and use the net proceeds to repay senior debt and then the PIPES Mortgage. Based on the asset's most recent valuation and LVR, the property value would have to decline c. 14% ($2M) before PIPES capital gets eroded.

Liquidity

An investment in the Fund will be illiquid. While PIPES may be transferred, holders have no right to request redemption and must expect to remain fully invested during the term.

Fees

A strong feature of the fund is that investors do not pay any upfront fees. Typically, a traditional property syndicate or fund would charge establishment/ acquisition fees, stamp duty, and other set up costs that would dilute the initial NTA (ranging from $0.86-$0.93 per unit). In the case of this Fund, the starting NTA is $1.00 per unit.

Similarly, there are no disposal or performance fees applicable. Normally these fees would reduce total returns to investors. Fees and costs can be divided into two categories:

1. The property management and leasing fees are treated as property expenses and, as such, are paid before distributions to PIPES investors. PIR believes these fees are in line with what a third-party manager would earn.

2. The funds management fee is only paid after distributions to PIPES investors. This is a fee paid to the manager and does not impact PIPES investors.

Figure 4: Fees in Perspective

	Fee paid	Comments
Property mgmt fee	3% of gross property income per month.	Treated as a property expense and paid before PIPES distributions.
Leasing fee	Commercial rates, typically 10%-15% of rent for year 1 of a lease.	Treated as a property expense and paid before PIPES distributions.
Management fee	0.5% pa of the property value, plus reimbursement for fees & costs.	Only paid after distributions on the PIPES.

Source: PIR/ BlackWall

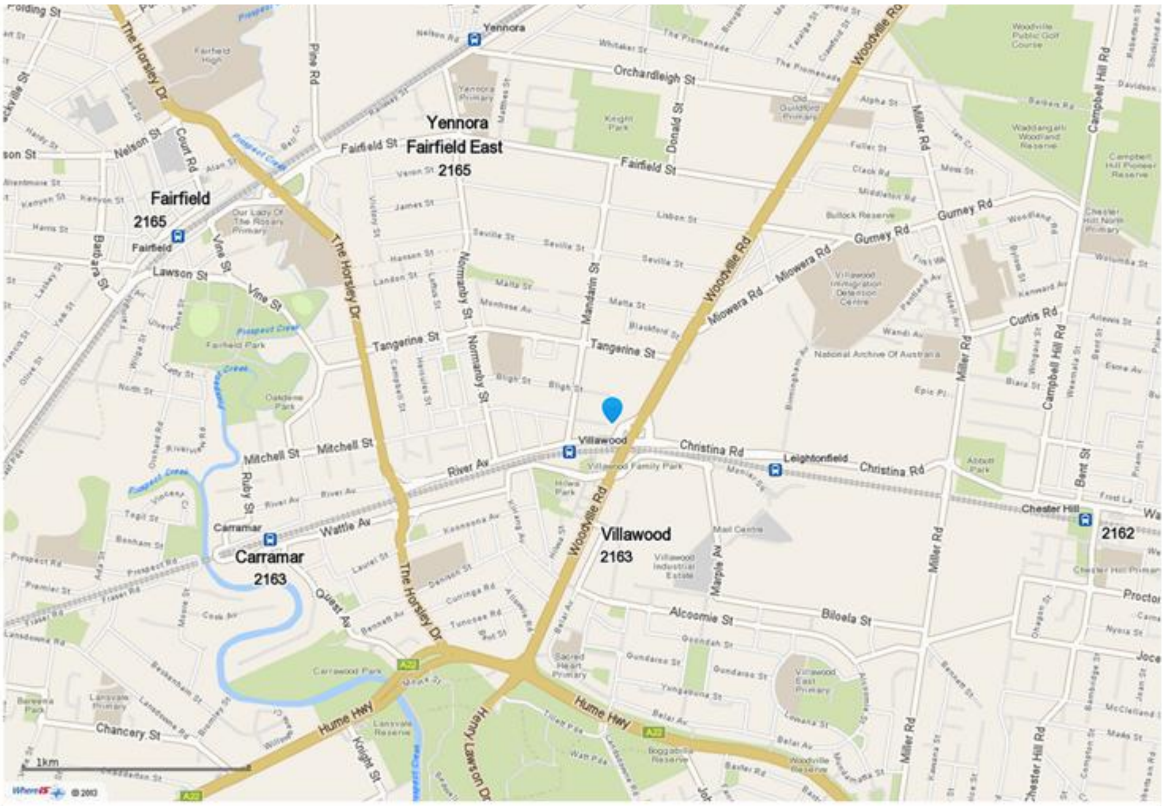
Fund Structure	
Responsible Entity (RE)	BlackWall Fund Services Limited
Investment type:	Preferred equity.
Investment Term:	7 years.
Issue Size:	No minimum.
Target return:	Investors will be entitled to a fixed income return of 8% pa, paid quarterly in arrears. Investors may also be entitled to a 20% share of capital gains above a $16M threshold, adjusted for capex. As the asset was most recently valued at $14M, this means that the first $2M of gains, along with 80% of the gains above $16M, will accrue to the property owner.
Security:	Second-ranking mortgage.
Trust Profile	
Geographic Exposure:	Villawood, western Sydney.
Sector Exposure:	Entertainment.
Tax	
Disclaimer:	Tax consequences depend on individual circumstances. The following comments cannot be considered tax advice and investors should seek their own taxation advice.
Capital gains:	Capital gains tax (CGT) will apply to any capital gains received.
Distributions:	Domestic investors should be liable for income tax on distribution payments at their marginal tax rate.
Legal Structure	
Wrapper:	Unlisted Unit Trust
Custodian	None
Offer Document:	The Product Disclosure Statement, dated 10 August 2015.
Returns	
Capital vs. Income:	Returns to investors will primarily be by way of distribution payments.
Income Frequency:	Distributions will be made quarterly.
Risks	For a more detailed list of the key risks, refer to the *Risks* section (Page 19) of the PDS.
Property/Market Risk:	The PIPES are secured against property and rank after senior debt in the capital structure. As such, investors will be exposed to the property sector, changes in the value of the asset, and declines in property income. If the property value declines by greater than $2M during the Fund's term, proceeds from the sale of the underlying property may not suffice to repay the PIPES. If income declines sufficiently, the Fund may not generate sufficient earnings to pay PIPES Distributions.
Interest Rate Movements:	In addition to the PIPES, the property is currently subject to a senior debt facility, which expires in May 2018. Senior debt costs may vary when the debt facility expires, and again when the Fund's interest rate hedge expires in December 2019.
Fees/Expenses	
Fund management fee	0.5% pa of the value of the property, plus reimbursement for fees and costs incurred. Only paid after PIPES Interest.
Property management fee	3% of gross property income per month. Treated as a property expense and paid before PIPES Interest.
Leasing fee	Commercial rates, typically 10%-15% of rent for the first year of a lease. Treated as a property expense and paid before PIPES Interest.

3. Property

The asset comprises an entertainment complex located at 824-850 Woodville Road, Villawood. Villawood is a suburb circa 22km west of the Sydney CBD. The asset is within walking distance of the Villawood train station and adjacent to a Bunnings Warehouse.

We highlight its location below.

Figure 5: Property location



Source: WhereIs.com

The table and charts below provide more detail on the asset.

Figure 6: Vital statistics

Address	The Woods Action Centre, 824-850 Woodville Rd, Villawood
Gross lettable area (sqm)	9,315
Major Tenants	AMF Bowling, Kartatak Raceway, Sydney Indoor Climbing Gym, Chipmunks Playland
Weighted Avg Lease Expiry (WALE)	2.77 years as at March 2015. Estimated 2.2 years as at October 2015.
Initial net passing income ($)	$1,371,851
Net market income (fully leased) ($)	$1,464,371
Rent growth	CPI or fixed 3% pa
Valuation	$14,000,000
Valuation date	10-Mar-15
Cap rate (valuer's adopted)	10.00%
Capital Value/sqm	$1,503

Source: BlackWall/Herron Todd White/PIR

The asset currently houses four leisure/entertainment tenants, with the largest being AMF Bowling, a subsidiary of ASX-listed Ardent Leisure (ASX: AAD). A fifth tenant, a furniture retailer, is on a month-to-month lease; the RE intends to replace the furniture store with a tenant more suited to the centre's mix. Construction is under way on a sixth tenancy that will house a café. Once the café is complete, the centre will offer 9,135 sqm of space. Key points include:

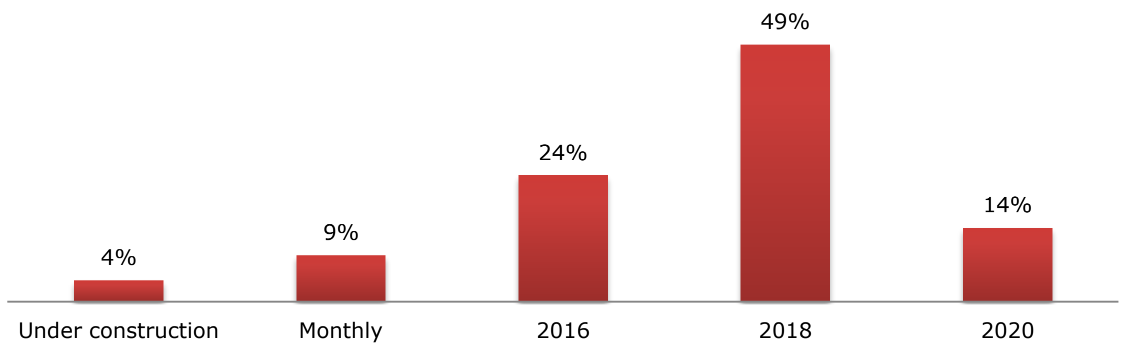
- WALE of 2.77 years (as at March 2015) is short in comparison to other funds rated by PIR, and as the figures below highlight, the Fund will need to renew its leases over the next few years.
- As noted in section 2 of this report, the Fund has an income buffer before PIPES distributions come under pressure, which provides a level of protection against tenants vacating. More details under *Performance Analytics.*
- AMF sales declined over 2012/2013 due to the opening of another AMF outlet nearby, at Fairfield. Sales have subsequently stabilised.
- The RE has advised PIR that it is in discussions with potential replacement tenants for the furniture store, as well as potential operators for the café.
- Rents are generally in line with market, suggesting that future income growth will be driven by fixed (in the case of AMF) and CPI rent reviews. The exception is the furniture store, which the valuer estimates is c. 30% below market rents.
- Given strong investor demand for assets with long leases, PIR believes that extending the lease expiry profile is likely to be the key catalyst for the property. The cap rate of 10% suggests that significant downside is already priced in (and may also represent the specialised nature of the asset – see below).

Figure 7: Tenancy schedule

Tenant	Area (sqm)	Lease expiry	Options (yrs)	Passing rent ($/sqm)	% of fully leased rent	Rent reviews (pa)
AMF Bowling	3,857	Jun-18	5+5	$182	40%	Greater of 3% or CPI
Kartatak Raceway	2,199	Dec-16	5+5	$200	24%	CPI
Sydney Indoor Climbing Gym	1,235	Mar-20	5	$208	14%	CPI
Chipmunks Playland	1,040	Dec-18	5	$168	10%	CPI
Furniture Paradise	803	Monthly	n/a	-	9%	n/a
Café (under construction)	181	n/a	n/a	-	4%	n/a
Total	**9,315**				**100%**	

Source: BlackWall/Herron Todd White/PIR

Figure 8: Lease expiry schedule



Source: BlackWall/Herron Todd White/PIR

Market sales evidence

Stand-alone entertainment properties being rare, the valuer has compared the asset to a range of bulky goods retail and industrial transactions, which we table below. The valuer's adopted cap rate and price per sqm reflect a discount to other retail properties. This, in our view, reflects a combination of (1) location, visibility, & tenancy profile; and (2) the asset's specialised use.

As noted above, PIR sees re-leasing as a key catalyst for the asset's valuation, with the potential to deliver meaningful compression from the current cap rate of 10%. Long-WALE assets as diverse as pubs, childcare centres, Bunnings Warehouses, and neighbourhood shopping centres have all benefited from investor demand for secure income. This can be seen in the table below, with the longer-leased Super A-Mart asset trading on a yield premium to the nearby Officeworks asset.

Figure 9: Market sales evidence

Address	Sale Date	Price (A$m)	Price (A$/ sqm)	Initial Yield	Cap rate/ Mkt yield	Comments
The Property - Woods Action Centre	**Valued Mar-15**	**14.0**	**$1,503**	**9.8%**	**10.0%**	**Entertainment complex**
9 Parramatta Rd, Lidcombe	Sep-13	5.9	$2,418	7.3%	7.3%	Retail asset
311 Parramatta Rd, Auburn	Feb-14	19.3	$2,139	8.8%	8.8%	Retail asset, leased to Super A Mart until 2023
300 Parramatta Rd, Auburn	Feb-14	21.0	$2,100	13.8%	9.5%	Retail asset, leased to Officeworks until 2017
708-712 Woodville Rd, Fairfield East	Dec-12	6.5	$2,197	10.0%	10.0%	Retail asset, WALE of 3.1yrs at sale
8-12 Wiggs Rd, Riverwood	Sep-13	9.7	$1,090	n/a	8.3%	Industrial asset, vacant possession

Source: Herron Todd White/ PIR

Market rental evidence

The valuer notes that there are not many similar entertainment complexes in Sydney and as such, the comparable market evidence also includes a number of bulky goods tenancies.

From the evidence provided in the valuer's report, the asset's rents are in line with the market. Individual tenancies may have slightly different market rents due to considerations such as size, location within the property, and visibility.

Figure 10: Market rental evidence

Address	Start date	Term (yrs)	Area (sqm)	Gross rent (A$/sqm)
The Property - Woods Action Centre	Most tenancies between $168/sqm and $208/sqm			
Flipout Trampoline Arena, 62 Batt St, Jamisontown	May-14	5	1,350	$226
AMF Bowling, 2-20 Orange Grove Rd, Liverpool	Jul-12	10	2,858	$180
Super A-Mart, 311 Parramatta Rd, Auburn	Oct-13	10	9,000	$208
Supercheap Auto, 233-239 Parramatta Rd, Auburn	Apr-13	7	925	$243
Shamrock Motor Grp, 178-180 Hume Highway, Lansvale	Oct-14	3	1,100	$186
Fitness First, 18 Louis St, Granville	Aug-12	15	2,022	$281
Beds R Us, 255 Parramatta Rd, Auburn	Nov-13	3	915	$166

Source: Herron Todd White/ PIR

4. Performance Analytics

Comparison to other products

Investment comparison is ultimately an assessment of relative risk and return. In assessing the PIPES, we have undertaken a comparison of the risks and returns available from a number of alternative investment opportunities. As the structure, liquidity, and risks of these investment alternatives are different, they are only intended as a general comparison.

Deposits with financial institutions

The PIPES can be compared in nature to fixed-interest deposits with banks or other deposit-taking institutions, in that the interest rate is fixed for the full term of the deposit.

However, it is important to note that the risk associated with the Fund is significantly higher than the risk associated with a bank deposit. The Australian banks are rated organisations, with the four major banks being among the most highly rated banks in the world at "Aa2" (by Moody's). Additionally, the banks and certain other Authorised Deposit Taking Institutions (ADIs) currently have their deposits up to $250,000 guaranteed under the Financial Claims Scheme by the Australian government.

By comparison, the PIPES are a preferred equity investment. Neither the principal nor the distribution payments are guaranteed.

The figure below shows that the PIPES offer a much higher rate than bank and non-bank term deposit rates, which reflects the disparity of risk between the two products.

Figure 11: Best Term deposit rates – 5-year rates as at 24 September 2015. (for $250k -$1M+)

	Best available rate
RBA cash rate	2.00%
Big 4 bank deposit rates	3.15% (Bankwest, part of CBA)
Other banks & credit unions	3.50% (RaboDirect)

Source: YieldReport/ PIR

Australian corporate debt

Below is a selection of recent corporate debt issuance with similar maturities to the PIPES, although again, adjustments need to be made for risk differentials. The figure below shows coupons ranging in the high 3%/low 4% range per annum, versus 8% for the PIPES. Please note this is the coupon rate and not the yield to maturity. The PIPES do not have a credit rating and would have a much higher risk profile than most of the Australian corporate debt highlighted below.

Figure 12: Recent corporate bond issuances

Entity	Date	Tranche	Size ($m)	Duration (years)	Coupon rate (%)	Comment
Telstra Corporation	Sep-15	Fixed	500	7	4.0%	Swap+130bps
Aus Pacific Airports (Melbourne) Pty Ltd	Sep-15	Fixed	250	7	-	Swap+137bps
Apple Inc	Aug-15	Fixed	1,150	7	3.71%	Swap+110bps
Commonwealth Bank	Aug-15	Fixed	1,000	7	-	Swap+7bps
DWPF	Jun-15	Fixed	150	7	4.25%	Swap+130bps

Source: YieldReport/ FIIG The Wire / PIR

Equity investments in property syndicates

Finally, PIR can compare the PIPES to ordinary equity investment in property syndicates. An analysis of recent property syndicates suggests that the PIPES offer investors a similar income yield for the first full year, with the key trade-off being the short WALE.

Again, this is not a like-for-like comparison. By definition, ordinary equity carries higher risk than preferred equity & debt, in exchange for potentially uncapped returns (and, in this case, the potential for distribution growth in later years).

Figure 13: Recent property syndicates

Fund	Sector	Equity Offered ($M)	Open Date	Initial term (yrs)	WALE (yrs)	Full Year DPU Yield (%)
Charter Hall Direct Automotive Trust	Retail (automotive)	56	Aug-15	6.0	13.0	7.5%
Heathley Aged Care Fund No 1	Aged care	34	Jul-15	8.0	20.0	8.0%
Centuria 8 Central Ave Fund No 2	Office	65	May-15	3.5	11.0	8.5%
Tipalea Retail Income Fund – Marian	Neighbourhood retail	15	Jun-15	5.0	11.5	8.0%
360 Capital Retail Fund No 1	Neighbourhood/ sub-regional retail	43	Mar-15	7.0	6.6	8.0%
The Marie Street Trust	Office	14	Jan-15	6.0	5.1	9.9%
Centuria 2 Wentworth St	Office	27	Dec-14	5.0	5.4	8.3%
APN Coburg North Retail Fund	Neighbourhood retail	11	Nov-14	7.0	13.9	7.2%
Heathley Direct Medical Fund No 1	Healthcare	83	Nov-14	7.0	5.0	8.0%
Charter Hall DOF	Office	200	Nov-14	5.0	4.1	7.5%
NewActon East Property Fund	Office	27	Sep-14	6.8	9.2	8.0%
Charter Hall DIF 3	Industrial	150	Sep-14	7.0	13.1	7.5%
BlackWall Woods PIPES Fund	**Entertainment**	**5**		**7.0**	**2.8**	**8.0%**

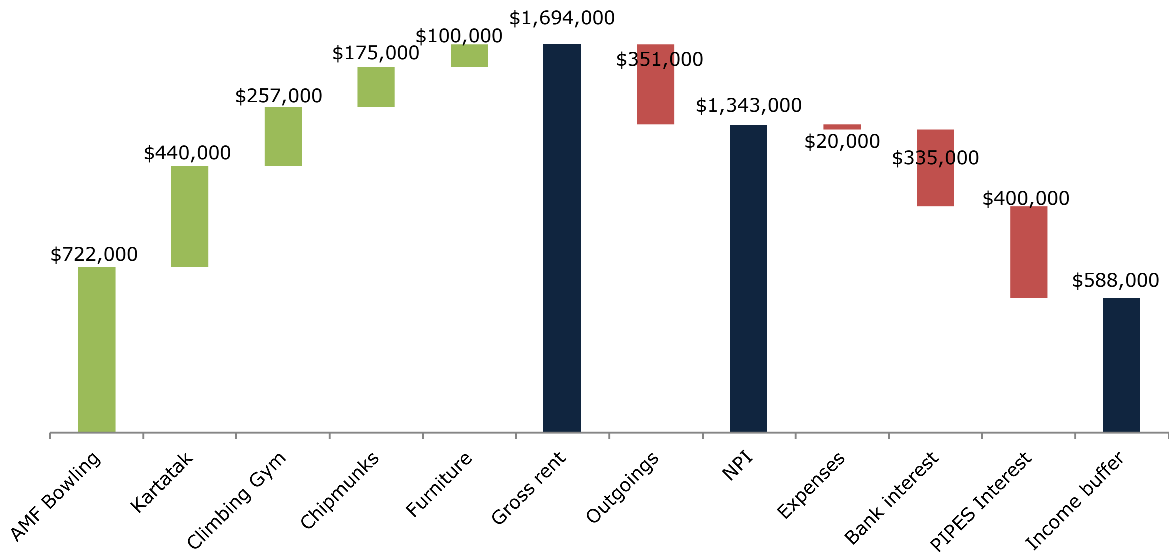
Source: Companies/ PIR

Income sensitivity

Below, we provide a visual illustration of the Fund's passing income, versus the distributions to which PIPES holders are entitled (second column from the right). PIR believes the Fund has enough passing income to weather the loss of one of the smaller tenants. However, the loss of AMF Bowling, or Kartatak plus a second tenant, would put pressure on PIPES distributions.

That said, the income buffer is likely to increase in subsequent years, due to (1) fixed and CPI rent reviews and (2) the benefits of re-leasing the furniture tenancy and securing a café tenant.

Figure 14: PIPES Interest sensitivity to year 1 passing income



Source: Company/ PIR

Capital gain/loss sensitivity

In addition to the fixed 8% pa distribution, PIPES investors may be entitled to a share of capital gains (the PIPES Bonus) upon termination of the Fund. Conversely, the sale price may be inadequate to fully repay the PIPES should property market conditions deteriorate significantly.

PIR has tested the effects of the final sale price upon returns to PIPES investors and shown this in figure 15 below. Key points include:

- PIPES investors are entitled to a 20% share of capital gains in excess of $16M plus capex and selling costs.
- PIR has assumed capex/tenant incentives of $250,000, which relates to adding a new café and re-leasing the furniture tenant.
- PIR has assumed selling costs equal to 1% of the sale price.
- The assumed Year 7 income and the final sale price reflect fixed and CPI rent reviews annually on a fully leased asset.
- Ordinary equity of $2M acts as a buffer against capital loss, suggesting that so long as the asset remains fully leased, even a significant deterioration in cap rates would be unlikely to affect repayment of PIPES capital.
- Assuming occupancy can be maintained, the overall IRR is likely to be in excess of 8%. Cap rate compression may produce a higher IRR in the range of 8%-10%.

Figure 15: Sensitivity table

Cap Rate	Gross Sale Price	Less Selling Costs	Net Proceeds	Capital Loss	Capital gain (above threshold)	20% PIPES Bonus	IRR
Threshold for capital loss			**$12,000,000**				
Threshold for capital gains			**$16,250,000 (incl. capex)**				
Year 7 NPI	**$1,700,000**						
Cap at...							
13.0%	$13,100,000	($131,000)	$12,969,000	-	-		8.2%
12.0%	$14,200,000	($142,000)	$14,058,000	-	-		8.2%
11.0%	$15,500,000	($155,000)	$15,345,000	-	-		8.2%
10.0%	$17,000,000	($170,000)	$16,830,000	-	$580,000	$116,000	8.5%
9.0%	$18,900,000	($189,000)	$18,711,000	-	$2,461,000	$492,200	9.3%
8.0%	$21,300,000	($213,000)	$21,087,000	-	$4,837,000	$967,400	10.3%
7.0%	$24,300,000	($243,000)	$24,057,000	-	$7,807,000	$1,561,400	11.5%

Source: BlackWall/ PIR

5.Management & Corporate Governance

Background of RE and Manager

BlackWall Fund Services, the RE of the Fund, is a subsidiary of BlackWall Property Funds Ltd (ASX: BWF). Below, we summarise the RE's Board and key management (shared in common with BlackWall Property Funds Ltd).

BlackWall Property Funds, the parent entity, is a vertically integrated property funds manager. The company's management team has been involved in development, management and consultancy of income-producing real estate since the 1990s. As at June 2015, it managed 10 unlisted and ASX listed real estate funds which collectively controlled over $500M worth of property.

Historically, management has been able to successfully reposition the assets in BlackWall funds and add significant value over time. The Fund's asset was previously a distressed bulky goods property, which was acquired in 2007 and stabilised by BlackWall's management team. This is consistent with the philosophy of the group, which is to acquire assets that are in distress, then reposition and hold them for the long term.

Figure 16: Board and key executives of the RE

Name	Role	Experience
Richard Hill	Independent, non-executive director & chairman	Founding partner of Hill Young & Associates, a corporate advisory firm. Previous experience with HSBC in Hong Kong and New York. Chairman of the ASX-listed Sirtex Medical.
Joseph (Seph) Glew	Non-executive director	Over 30 years' experience in property development and real estate, across New Zealand, the US, and Australia.
Robin Tedder	Non-executive director	40 years' experience in investment markets. Director of the ASX-listed Probiotec Ltd.
Stuart Brown	Executive Director Chief Executive Officer	Over 17 years' experience in property investment. Previous experience as a real estate and M&A solicitor.
Tim Brown	Chief Financial Officer	CFO for BlackWall since 2009. Previous experience with Lend Lease and Deloitte.
Lucy Partridge	Head of Funds Management	Over 15 years in funds management, assurance, and corporate & transaction advisory. Previous role with BDO.
David Tressider	Director of Projects & Leasing	Over 25 years' experience in the property industry. Previous experience with Lend Lease and Woolworths.
Caroline Raw	Counsel & Company Secretary	Practiced as a solicitor in NSW since 2005, with a focus on IPOs, capital raisings, funds management, and M&A.

Source: BlackWall/ PIR

Compliance and Governance

The Fund is a registered managed investment scheme pursuant to the Corporations Act, and is governed by a Constitution and a Compliance Plan. PIR has not reviewed the RE's Compliance Plan. The Board comprises one independent director (the Chairman) out of four.

The other directors are not independent. The audit committee comprises two non-executive directors, Robin Tedder and Seph Glew.

ASIC Retail disclosure principles

Under ASIC's Regulatory Guide 45: "Mortgage schemes: Improving disclosure for retail investors (RG45), all managers are required to address disclosures made in the PDS against eight benchmarks and eight disclosure principles. PIR advises investors to read the Fund's PDS, which addresses these benchmarks. We summarise the PDS below.

Figure 17: Summary of ASIC retail disclosure benchmarks

ASIC benchmark	Compliant (Y/N)	Comments
Liquidity	N/A	The Fund is not a pooled mortgage scheme and therefore not applicable. As such, the only form of liquidity is at wind-up of the Fund.
Scheme Borrowing	Y	The Fund currently has no borrowings and does not intend to borrow.
Loan and portfolio diversification	N/A	The Fund is not a pooled mortgage scheme and therefore not applicable. The Fund will invest in a single asset vehicle and therefore has no diversification.
Related Party Transactions	Y	The Fund will not lend to related parties or the investment manager.
Valuation Policy	Y	The RE has a written policy.
Lending Principles	Y	The Fund's investment in the property is not a loan. The property has a LVR of 50% against its bank facility.
Distribution Practices	Y	Distributions will be made from property operating income and will not be paid out of borrowings.
Withdrawal arrangements	N	The Fund is not a liquid scheme. Members have no right to withdraw.

Source: BlackWall/ PIR

6.Past Performance

BlackWall has managed five previous PIPES funds, whose returns we provide below. The average IRR has been 12.8%.

Figure 18: Previous BlackWall PIPES funds

PIPES Fund	Maturity	IRR
Hobart PIPES	Jun-05	14.3%
Bakehouse PIPES	Oct-05	14.1%
Penrith Fund No 1	Jun-06	11.4%
BlackWall Storage Fund	Oct-13	14.9%
Penrith Fund No 2	Dec-13	9.3%
Simple average		**12.8%**

Source: BlackWall/ PIR

Readers should note that that past performance is not a reliable indicator of future performance as every fund – and its respective underlying property – has its own specific risks and attributes.

Appendix – Ratings Process

PIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

AAA: This is the highest rating provided by PIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely to effectively manage endogenous and, to the extent that it can, exogenous risk factors with industry best practice.

AA+: Indicates that PIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories.

AA: Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives. The Fund should be in a position to effectively manage endogenous and, to the extent that it can, exogenous risk factors. This should result in returns being reflective of the expected level of up-side and down-side risk.

AA-: Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

A+: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives.

A: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria but may not stand apart from its peers. There are certain assumptions, the outcome of which is sometime in the future and, therefore, less predictable. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.

A-: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. There are certain assumptions, the outcome of which is sometime in the future and, therefore, uncertain. However, it has an acceptable risk/return trade-off. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in-line with stated investment objectives.

B+: PIR believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While PIR does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities. However, concerns over one or more features mean that it may not be suitable for most investors.

B: PIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to contain high risks which are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

This report has not been commissioned, and, as such, PIR has not directly received a fee for its publication. Under no circumstances has PIR been influenced, either directly or indirectly, in making statements and/or recommendations contained in this report.

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