

35 Latitude Development Fund: Investment Summary Report

30th June 2021

And quickly the sentiment changes!

The Sydney Morning Herald

Property boom tipped to continue into 2022 By John Collett, June 8, 2021

People always quote me the latest headline and statistic as reported by the mainstream media and ask me my thoughts on where the market is headed. I have learnt from history that predicting the future is a fool's game, and those that want to partake in it are generally seeking some form of validation with a grandiose view of their own self-importance.

I will go on the record here that I have no idea where prices will be in 12 months' time. More importantly, nor do I care. Sure, I have an opinion, but we all know what they say about an opinion (I won't reference the quote due to it's unsavory nature).

Typically, people will regurgitate the latest thing they have read with little thought into the veracity of the statement, or the reasons why this may (or may not) be true. For the thousandth time I will repeat, the media has an agenda to sell papers and get viewers. Being held account for their reporting is not necessarily high on their agenda's.

What I do know for a fact is that clients that invested with us a decade ago are currently looking to liquidate portions of their (direct) portfolios with significant profits based on the astute purchasing they did last decade.

They have understood that investing is a long-term game, and short-term decisions do not always equate to an immediate uplift in value. The business of Property Development is the perfect example of this philosophy, as creating value and up-lift takes time and patience. I will repeat the adage from our last newsletter:

Investors Think in Decades, Not Quarters.

Portfolio construction takes time, strategy, and perseverance. Our focus remains on realizing an profit, which is a time-consuming process, while it is often tempting for people to focus on the short term. Meanwhile, we focus on what we know and what we understand and continue to deliver projects through our pipeline.

Prioritizing the use of capital across the portfolio is a considerable challenge for us, but more importantly maximizing the outcomes for investors in a timely manner.

On site our Blackalls Park progress continues to progress through the construction phase. Early weather disruptions have pushed back our schedule, however the builder is making good progress on site. Demand through our marketing campaign has been extremely positive, with all units sold (three awaiting exchange).

We have signed building contracts to commence physical construction on site at Toronto which should begin during the next quarter. We had found enquiry had been slow, however once the stock available at Blackalls reduced, we have experienced increased demand for this project. We currently have 5 contracts issued and are working with our agents toward exchange.

We are looking to move the Hamilton site toward a formal Auction campaign to sell during the next quarter. We have received off market interest, which has encouraged us to sell as a DA approved site (rather than build) and believe going to Auction will maximize our opportunities to obtain a top price in the current market. We believe these funds are probably better used through another project at this time, provided we can get achieve the value we believe through sale.

Wangi Wangi is another project that is benefiting from market appreciation, and whilst again we have no short-term aim to commence construction there (we are happy to ride the increasing market in this lakeside suburb), we also do not have a great deal of capital outlaid in this project. We have gone back to several builders to update our build costs, as the early sales activity has been very strong at the lake reserve currently under construction in the area. Whilst it is a direct lakefront reserve site, they have achieved sales more than \$1M for their 3-bed product, as well as \$850,000 for a 2-bedroom unit. Whilst we do not expect prices to this level, we do expect a much higher price than initially budgeted on, so will review the opportunities available her in the next 6 months.

The final stage of our Dubbo project is also benefitting from strong price growth in this market. Again, construction will be determined by cashflow requirements of the fund, however we are currently awaiting final sales advice on the remaining vacant lots we have available for sale after re-listing a month ago. At this stage we believe we have 3 of the 4 remaining lots sold (subject to exchange).

As you know, the Belmont project is our most significant project to date. I have gone to lengths to explain to clients the importance of this project, and whilst we would love to see more projects of this nature, the probability of another project that makes this much sense in the short term is unlikely. This is a very special project with an exceptional opportunity to create something very special for the community, and residents as well as our investors. We have included a more detail overview of this project below for your review.

We are currently fielding requests from a number of third parties to locate further investment opportunities, where they would enter a Joint Venture opportunity with us providing significant capital to partner in the project for a share of the development profits. Watch this space as we provide further information around these opportunities if/when they eventuate.

I am looking forward to the next quarters progress, as well as creating significant progress to (particularly) the Belmont project over the next 12 months and continue to appreciate your support and involvement as we progress through our development pipeline.

Kind regards,



BRETT BROOKFIELD
DIRECTOR

EXISTING PORTFOLIO

PROPERTY: **36 Macquarie/1 Walter St's Belmont**

- Concept provides 33 lake reserve apartments with water views, ground floor commercial space and rooftop communal terrace.
 - Early conceptual meeting with council has received strong support.
 - Working on final plans to lodge with Lake Macquarie Council.
 - Strong buyer interest with 10 units already reserved.
 - Sales prices obtained are priced between \$100,000-\$200,000 above our initial feasibility estimates.
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We have recently lodged documentation and held our Pre DA meeting with the LMCC to discuss our design with the assessing council planner (and a number of internal council consultants) last week.

As mentioned previously, council has been supportive of our proposal and of us entering into a “Voluntary Planning Agreement” regarding the upgrade of the Lions Park that adjoins our site. We have been working with our landscape architect to integrate this upgrade into our development to provide an excellent outcome for both residents and most importantly the community. One of the major points council is passionate around is trying to make this area a “destination” particularly with our aim to provide exceptional commercial spaces on the ground floor to add to the offering in the area. With the direct lake outlook, we see this ground floor plane being very conducive to a restraint as well as coffee shop our boutique outlet, and we have continued to work through our design to maximise these spaces and provide greater integration.



We currently have 3 separate commercial spaces on the ground floor with communal space on the northeastern corner engaging at the street level. Council intends to provide connectivity between the lake and the Fernleigh Track and expect to bring this down Macquarie St so interacting and engaging at the ground level is an outcome they are looking for. We are also creating a “look through” visual corridor from Walter St through to the lake via the internal lobby, providing further connectivity in the design. The large, terraced balcony off the commercial areas provide aspect and an opportunity for the commercial operators to utilise this area.



The aim is to then integrate to a new deck area in the park, which provides additional connectivity to our development. Council is open to the removal of the immediate trees in the area, with compensatory mature planting to occur in the park upgrade. This will provide us an opportunity to provide a much better visual outcome through the entire area, through planting, shaded BBQ areas and possibly Kayak storage and bike parking facilities (to cater for bike movement from Fernleigh Track).

Architecturally we have been working on the external aspects of the building to create a striking building to reflect this iconic location. Our Architect initial theme was trying to reflect the lake front aspect and create a striking façade to replicate the movement of the lake and the effect of a sail like feature.



Through our meetings with associated parties from council, they have been very supportive and seeking us to provide an outcome to provide “Design Excellence”. Our meetings with the “Head of Development and Planning” as well as the “Manager of Development Assessment” have told us they would favourably look at a proposal to exceed the height limit for this site (due to its significance as a gateway to the area) with the objective of delivering a very special building for this location. The term “Design Excellence” is obviously a very subjective term, however we have continued to try to push the boundaries around this concept to meet councils expectations. We have added considerable further texture to the building, removing sharp edges to create (we think) a much more elegant façade, whilst still trying to deliver the outcome and theme to the building. In increasing our height we have delivered a further 4 opulent penthouse style units, increased the ground floor commercial spaces and added a further level of basement car parking. Whilst this invariably increases the costs of the development, we expect each of these 4 units to demand prices in excess of \$2.5M each, which vastly outweighs the costs.



Our design has very much been driven by a “Form follows Function” approach, driven by creating well-appointed units, maximising the available views to all units, whilst still providing us a unit yield we require. This principle dictates the buildings purpose should be the starting point for the design rather than the aesthetics. Whilst adopting this approach, we have not done so to the detriment of the aesthetic, and we like to think we have come up with what will easily be the most stunning building in Lake Macquarie, however council are still indicating they expect to see more to justify the proposed height exceedance.

In response to this, we are looking to drive our design from the perspective of “Function follows Form” and start from our external aesthetic to create (first and foremost) a stunning façade as the focal point to our project. Whilst this sounds like a major shift, we have the basis for this premise already in place, and we do not expect this will overtly affect our overall design premise, unit yield but may require some “tweaking” to the physical floorplan designs. With some further enhancements around the use of materials and external build form, we hope to be able to share the stunning statement this building will produce over the next month as we strive to create a benchmark for future developments around the lake, and we are confident that our final external outcome will be nothing short of stunning.



If we are able to progress this approach, our financial feasibility will significantly improve based on our previously forecast numbers, however at this stage we propose the existing feasibility as a reference point.

Belmont	ex GST
Current Recorded Fund Value	\$ 2,768,000
1 Walter St Purchase	\$ 1,700,000
Future Expenses	
Approval Costs (remaining)	\$ 45,455
Construction Documentation	\$ 181,818
Council Contributions	\$ 600,000
Build Contract (estimate)	\$ 18,000,000
Estimated Interest Costs	\$ 1,000,000
Settlement Costs	\$ 181,818
Selling Agents Commissions	\$ 900,000
Total Development Costs	\$ 25,377,091
Sales Prices (estimate)	\$ 45,000,000
Potential Project Profits	\$ 19,622,909
Proposed Bank Loan	\$ 15,000,000
Initial Price - Macquarie St	\$ 1,600,000

PROPERTY: 10 Faucett St Blackalls Park

- First Floor frames are complete, with brickwork, first floor frames, cladding and roofing commenced on units 6-9. Brickwork and second floor framing has commenced on units 2-5 and expect this to be complete across the site in the next 6 weeks.
- Marketing campaign complete with all units sold – 3 pending contract exchange.



Blackalls Park	ex GST
Current Recorded Fund Value	\$ 3,526,850
Future Expenses	
Approval Costs	Included above
Construction Documentation	Included above
Council Contributions	Included above
Remaining Build (estimate)	\$ 1,940,000
Settlement Costs	\$ 54,545
Selling Agents Commissions	\$ 100,676
Total Development Costs	\$ 5,592,071
Sales Prices (estimate)	\$ 5,901,818
Potential Project Profits	\$ 309,747
Initial Land Price	\$ 850,000

PROPERTY: 124 The Boulevard Toronto

- Builder appointed with construction to commence in the coming quarter.
- Sales marketing strategy has been strong, with 5 contracts issued awaiting exchange.
- Expect completion Mid 2022



Toronto	ex GST
Current Recorded Fund Value	\$ 903,243
Future Expenses	
Approval Costs	Included above
Construction Documentation	Included above
Council Contributions	\$ 80,000
Build Contract (estimate)	\$ 1,790,909
Settlement Costs	\$ 36,364
Selling Agents Commissions	\$ 62,618
Total Development Costs	\$ 2,873,134
Sales Prices (estimate)	\$ 3,130,900
Potential Project Profits	\$ 257,766
Initial Land Price	\$ 520,000

PROPERTY: 38 French Rd Wangi Wangi

- Currently a new lakefront development is in construction at Wangi. With reported sales prices of \$1.2M received for top level (opulent) 3 bed units and \$849,000 for lakefront 2 bed unit, we are looking to have builders retender to look at feasibility to commence construction commencing 2022.
- Evaluating construction funding needs, whilst currently prioritising other projects.
- Re-visiting build costs and sales estimates to update financial feasibility in current market, however retain current values for the moment.



Wangi Wangi		ex GST
Current Recorded Fund Value	\$	586,361
Future Expenses		
Approval Costs		Included above
Construction Documentation		Included above
Council Contributions	\$	60,000
Build Contract (estimate)	\$	2,000,000
Settlement Costs	\$	45,455
Selling Agents Commissions	\$	63,636
Total Development Costs	\$	2,755,452
Sales Prices (estimate)	\$	3,181,818
Potential Project Profits	\$	426,366
Initial Land Price	\$	300,000

PROPERTY: 5-7 Swan St Hamilton

- Have received an “off-market” offer to purchase for \$1.1M + GST, considering testing the market to release equity back to the fund.
- Looking to enter into a formal Auction campaign to determine maximum sale price.



PENDING PORTFOLIO ADDITIONS

PROPERTY: **Waratah Golf Club – Joint Venture**

- Existing Heads of Agreement in place.
 - Documentation with fund legal team for final signoff.
 - Once obtained, review previous consultants and lodge this quarter for re-zoning.
 - Expect to be able to begin dwelling design process toward the end of 2021 to lodge with council.
 - Provided favourable timeline, possible construction commencement mid to late 2022.
 - Indicative sales pricing has improved circa \$50,000 per unit during negotiations.
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Waratah (50% share of Profits)		ex GST
Current Recorded Fund Value	\$	72,248
Future Expenses		
Approval Costs	\$	181,818
Construction Documentation	\$	545,455
Council Contributions	\$	1,600,000
Build Contract (estimate)	\$	21,818,182
Estimated Interest Costs	\$	1,200,000
Settlement Costs	\$	227,273
Selling Agents Commissions	\$	727,273
Total Development Costs	\$	26,372,248
Sales Prices (estimate)	\$	36,363,636
Potential Project Profits	\$	4,995,694
Proposed Bank Loan	\$	24,000,000

PROPERTY: Islington Apartment/Social Housing Development

- Agreed to terms to secure approx. 1,200m² site across the road from Islington Park.
 - Concept plans for 40+ social housing units over 4 levels or 28 “typical” apartments over 3 levels.
 - Reviewing early design and future town planning requirements.
 - Seek end buyer from Government subsidized Social Housing providers, with alternate fallback position of profitable development designed toward the traditional apartment market.
 - Joint Venture partner has significant experience in sector and Social Housing contacts.
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Islington (50% share costs & sales)		ex GST
Initial Price	\$	1,300,000
Future Expenses		
Approval Costs	\$	90,909
Construction Documentation	\$	90,909
Council Contributions	\$	80,000
Build Contract (estimate)	\$	4,000,000
Estimated Interest Costs	\$	250,000
Settlement Costs	\$	54,545
Total Development Costs	\$	5,866,364
Sales Prices (estimate)	\$	9,090,909
Potential Project Profits	\$	3,224,545
Proposed Bank Loan	\$	3,500,000

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