

BUNNINGS ANCHORED LARGE FORMAT RETAIL FUND

**MCGRATHS HILL HOME
10 INDUSTRY ROAD, VINEYARD NSW**

AUGUST 2024



The Investment Opportunity

A dominant Large Format Retail centre in Sydney's north-west growth corridor

THE OPPORTUNITY

McGraths Hill Home (the Centre) is a **fully leased**, Large Format Retail (LFR) centre located in Sydney's **high growth**, north-west corridor which outperforms metro Sydney on key demographic metrics. The Centre is anchored by **Bunnings Warehouse** (43% of income) and supported by an additional eight tenants – seven of which have a national presence.

KEY FEATURES

TARGET IRR 14.1% p.a.

AVERAGE CASH YIELD 7.1% p.a.

**GROSS TAX EQUIVALENT*
IRR (47% TAX RATE)** 18.7% p.a.

**GROSS TAX EQUIVALENT*
CASH YIELD (47% TAX RATE)** 10.0% p.a.

FUND TERM 4.5 years

CY | Cash Yield
IRR | Internal Rate of Return

*The **Gross Tax Equivalent** return reflects what an investor would need to derive from an alternative investment such as a private credit fund to achieve the same after-tax total return and cash yield as the Fund's investment.



Investment Tenancy Profile

Asset underpinned by strong tenancy profile

100%
LEASED

4.8YR
WALE
BY INCOME

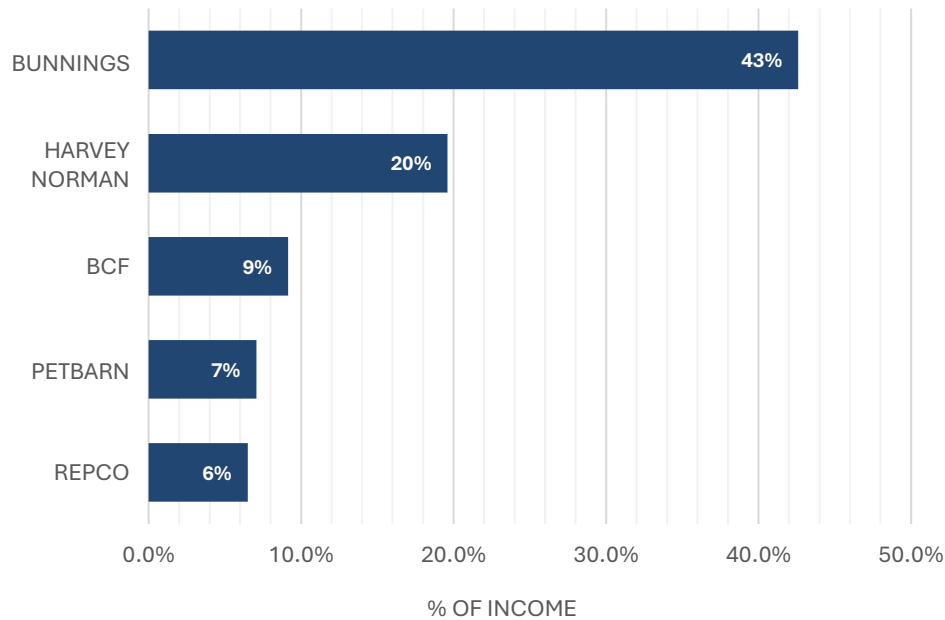
97%
NATIONAL
TENANTS

3.0%
AVG. FIXED RENTAL
INCREASES

64%
NEIGHBOURHOOD
RETAIL

15YR
AVG. TENANT
OCCUPANCY

TOP 5 TENANTS BY INCOME (85% of net income)



64% NEIGHBOURHOOD RETAIL*



36% LARGE FORMAT RETAIL



* Neighbourhood retail comprises largely non-discretionary spending with regular repeat customer visitation.

Transaction Metrics

THE OPPORTUNITY

Favourable transaction metrics relative to peer group

OVERVIEW

PURCHASE PRICE	\$55,000,000
GLA	16,478 sqm
SITE AREA	3.78 ha
WALE (by income)	4.8 yrs
OCCUPANCY	100%
WEIGHTED AVG. RENTAL INCREASE	3.0%
% OF NATIONAL TENANTS	97.0%
INITIAL YIELD	6.20%
RATE PER SQM OF GLA	\$3,338

METRO SYDNEY LARGE FORMAT RETAIL SALES > 10,000M²

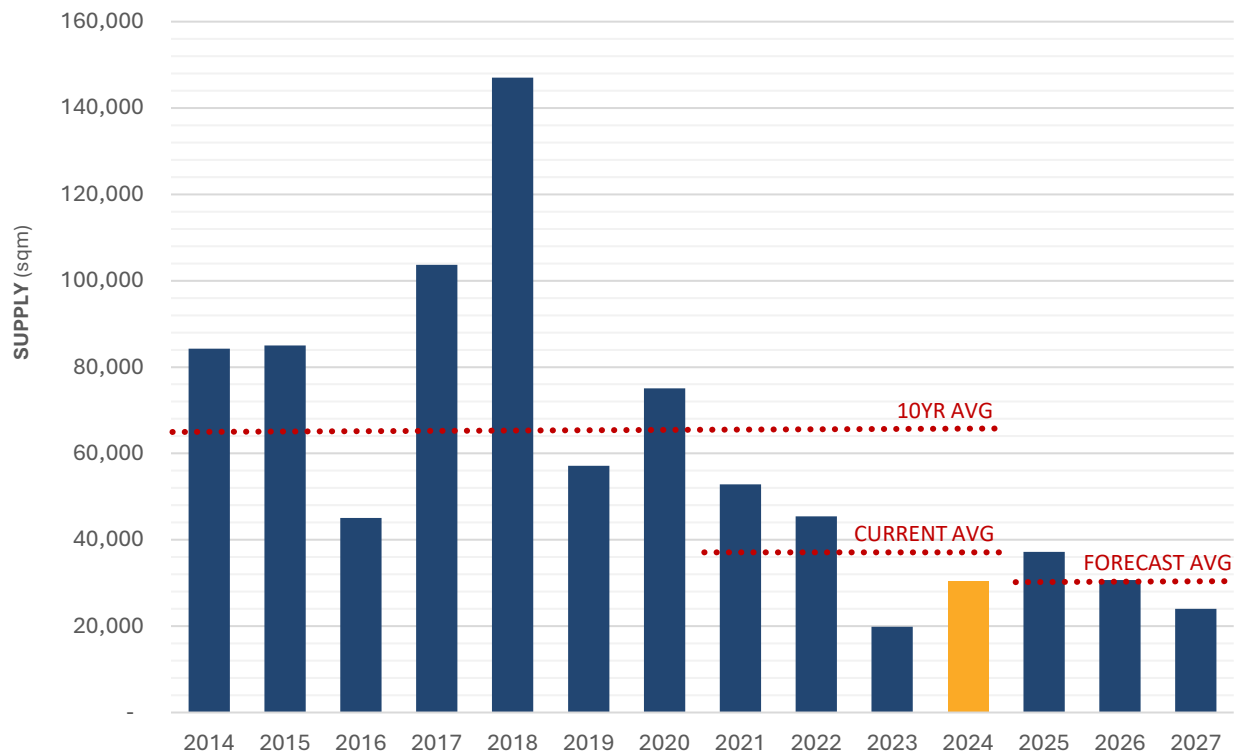
CENTRE NAME	DATE	SALES PRICE	PASSING YIELD	FULLY LEASED YIELD	GLA (sqm)	SALE PRICE (\$/sqm)	VENDOR	PURCHASER
300 Parramatta Road, Auburn	Mar 20	\$46.0m	5.46%	5.46%	9,647	\$4,768	Altis Property Partners	Dahua Group
Homebase Campbelltown	Aug 21	\$48.3m	4.99%	4.99%	10,738	\$4,498	Goodwin & Kenyon Group	Campbelltown City Council
Minchinbury Large Format Centre	Jun 21	\$68.0m	5.15%	5.49%	10,813	\$6,289	-	IOOF
Homemaker Prospect	Nov 22	\$78.9m	5.57%	6.32%	25,767	\$3,062	Dexus	Ashe Morgan
Crossroads Homemaker Centre	Oct 22	\$282.0m	4.57%	4.57%	52,138	\$5,409	Ashe Morgan	LaSalle
Alexandria Homemaker Centre	May 22	\$200.0m	4.00%	4.00%	22,416	\$8,922	Arkadia	Goodman Australia
Bayview Centre (Wollongong)	May 24	\$57.0m	5.50%	5.50%	10,729	\$5,313	Griffith Capital	MLC
Weighted Average	-	\$176.9m	4.72%	4.83%	-	\$6,048	-	-
McGraths Hill Home	Nov 24	\$55.0m	6.20%	6.20%	16,479	\$3,338	HomeCo	Stirling

McGraths Hill Home is being acquired at a **32% discount** to the peer group yield and a **45% discount** to the peer group capital value per sqm.

LFR Supply & Vacancy

Undersupply and tight vacancy support rental growth

NSW LFR HISTORIC & FORECAST SUPPLY



Source: CBRE Research

SECTOR UNDERSUPPLIED

Supply in NSW is 45% below the long-term average, compounded by forecast supply 55% below the long-term average.

LOW VACANCY

2.5% sector vacancy. Prime assets typically 100% occupied. Tenants have limited options.

REPLACEMENT COST

A new development would need 96% higher rents to deliver the same returns.

COST ESCALATION

5.0% p.a. construction cost increases forecast over 2024-2026* further widening gap between economic and passing rents

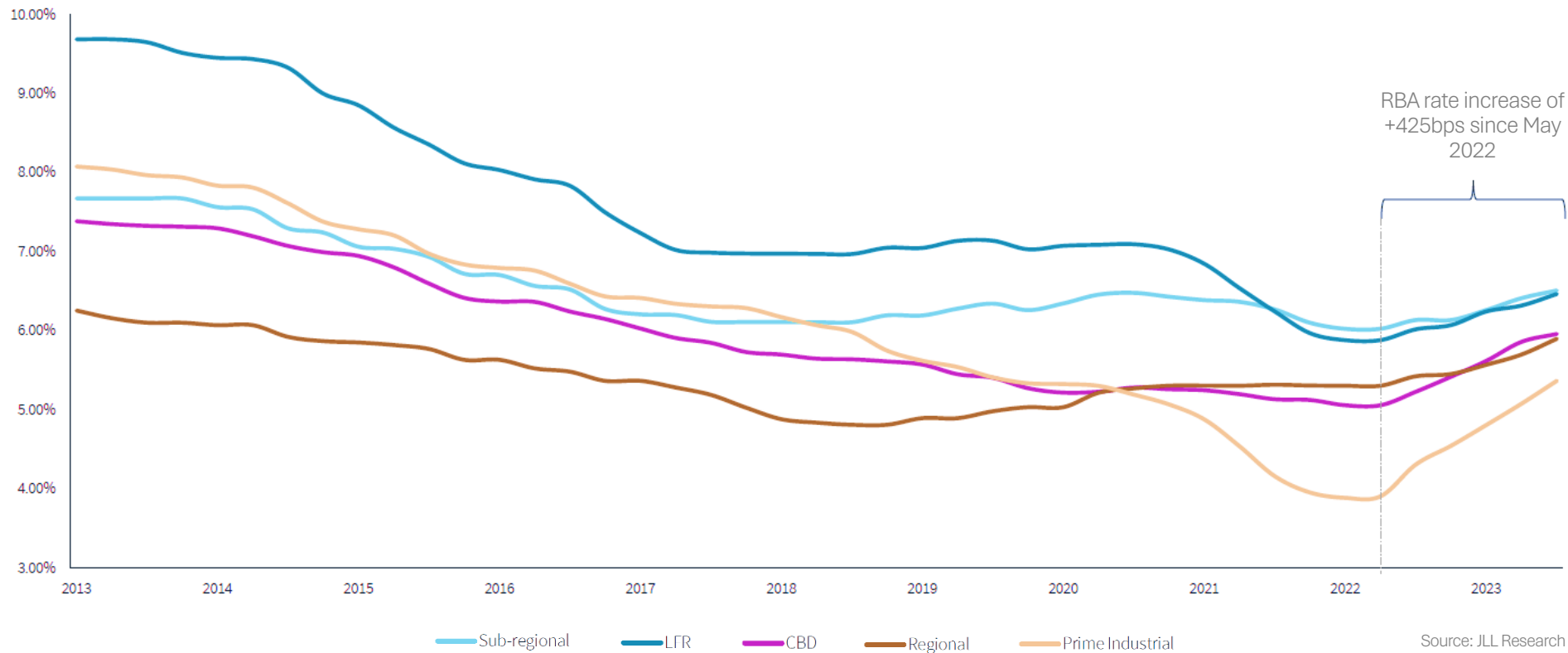
Economic Rent | Economic rent is the basis on which new developments are assessed as being feasible.

*WT Partnership Research

LFR Sector Capital Value Resilience

LFR capital values have demonstrated resiliency through the RBA tightening cycle

AUSTRALIAN COMMERCIAL REAL ESTATE EQUIVALENT YIELD



- LFR capital values have proven the most resilient to the RBA's 425bps tightening.
- The Centre provides a hedge against further rate increases and elevated inflation:
 - WARR of 3.0%
 - WALE 4.8yrs
 - High conversion of property income to investor distributions
 - Security of income from 97% national tenants

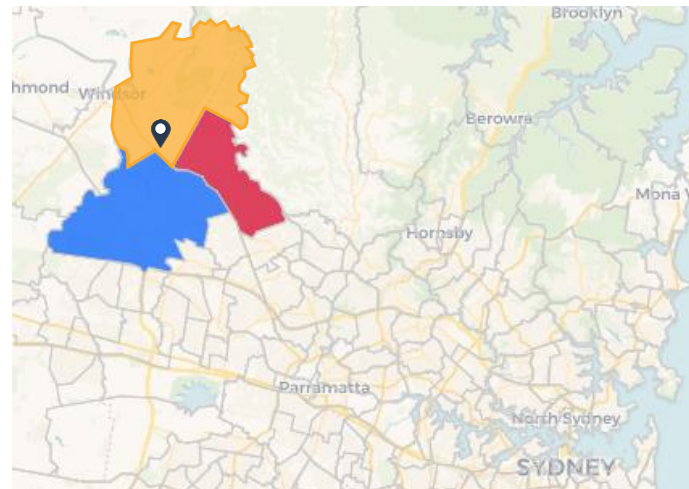
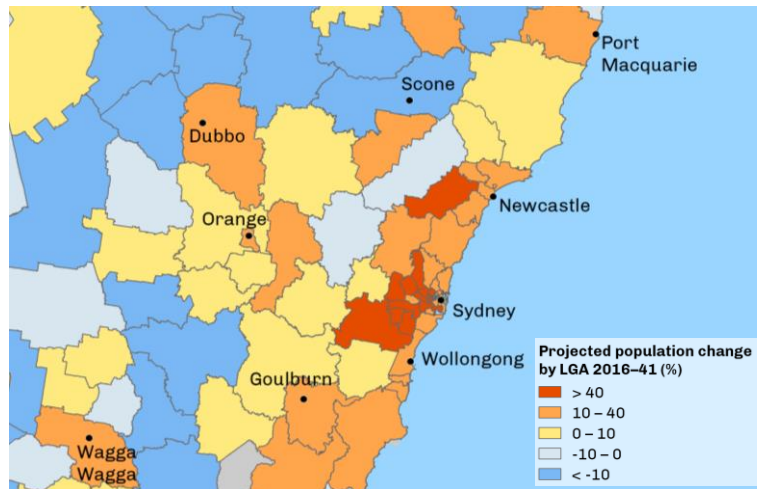
Trade Area Profile

Increased tenant demand in response to population and household formation growth

TRADE AREA PROFILE

- **POPULATION GROWTH** Centre Main Trade Area population has grown at 7x Sydney Metro average.
- **HOUSING SUPPLY** 9,600 new dwellings to be delivered in the north-west growth corridor.
- **HOUSEHOLD OWNERSHIP** 9.0% higher than Sydney Metro average.
- **HOUSEHOLD INCOME** 8.0% higher than Sydney Metro average.
- **CONSUMER SPEND** Additional \$17.3bn in spend over the next 9-years as a result of population growth – LFR sales are 25% greater than pre-Covid levels.

PROJECTED POPULATION CHANGE 2016-2041



- 📍 **MCGRATHS HILL HOME**
- **PITT TOWN – MCGRATHS HILL POPULATION** ↑ 2.5% p.a.
- **ROUSE HILL – BEAUMONT HILLS POPULATION** ↑ 4.13% p.a.
- **RIVERSTONE – MARSDEN PARK POPULATION** ↑ 5.36% p.a.

Source: Planning NSW

Opportunity For Capital Value Growth

Sector scarcity and increased allocations from institutional investors to drive capital values

SCARCITY OF INVESTMENT STOCK

McGraths Hill Home is one of only 30 LFR centres in metropolitan Sydney with > 10,000m² of GLA.

Out of those 30 centres, only 6 have transacted over the last 4-years at an average yield of 4.72% vs 6.20% for the Centre.

Tightly held sector.

INCREASED INVESTMENT ALLOCATIONS

Increasing reallocation of institutional capital from office to retail and industrial sectors.

LFR is transitioning to a greater portion of non-discretionary retail leading to increased investor demand.

Positive outlook for rental growth.

KEY PART OF OMNICHANNEL RETAIL

Growing awareness around the key role LFR plays in online retail.

In-store retail supported by cost effective space, ease of access (on-grade parking) and convenient location.

Click and collect functionality and last mile delivery capability.

**POSITIVE
OUTLOOK
FOR CAPITAL
VALUE
GROWTH**

Driving Rental Growth

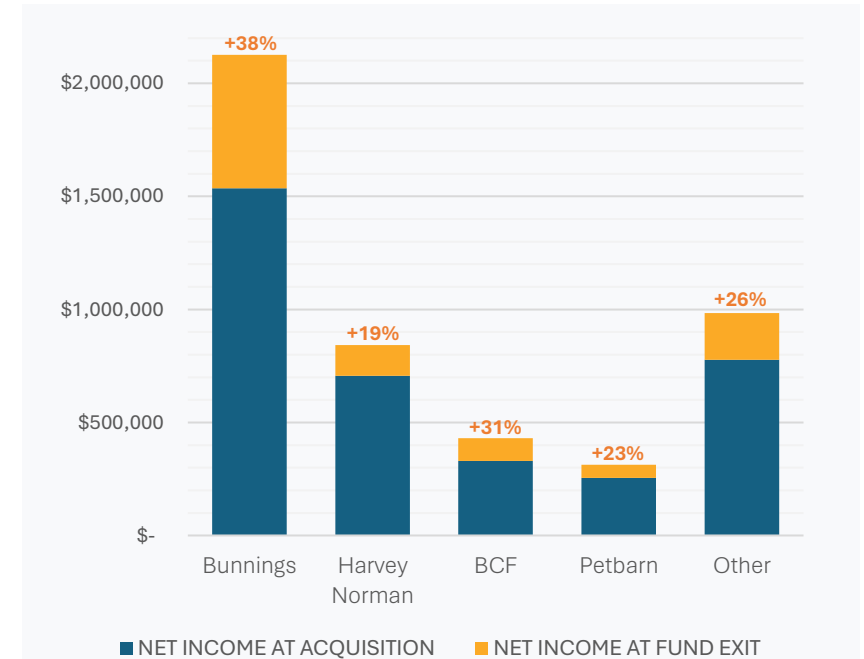
Increasing Bunnings rent in line with market to drive Centre rental growth

BUNNINGS COMPARABLE MARKET RENT REVIEWS

BUNNINGS LOCATION	GREENACRE	BELROSE	ARTARMON	VILLAWOOD	WEIGHTED AVERAGE	MCGRATHS HILL
GLA (sqm)	14,149	8,888	5,764	13,250	-	9,397
RENT REVIEW DATE	Apr 2022	Feb 2023	Feb 2023	May 2023	-	Dec 2024
TERM	5yrs	5yrs	5yrs	5yrs	-	5yrs
MARKET REVIEW RENT	\$2,872,247	\$2,222,000	\$1,827,188	\$2,146,100	-	\$1,535,489 (passing)
MARKET REVIEW RENT \$/sqm	\$203	\$250	\$317	\$162	\$216	\$163

- Bunnings passing rent is 26% below the weighted average of comparable market rent reviews.
- An independent valuer has assessed Bunnings rent to be 25% below market.
- The lease provides for 3% p.a. fixed annual rent increases with a rental cap of 10% at market review in Dec-2024 and 10% cap at option in Dec-2029.
- Stirling has adopted an 8% increase in Dec-2024 to \$176/sqm net and a 10% increase should Bunnings exercise their option in Dec-2029 to \$218/sqm net, in line with current Bunnings average market rents.
- On a per capita basis, Bunnings is underrepresented in the Sydney north-west growth corridor with floorspace of 0.11sqm per person vs. 0.19sqm per person in the Sydney south-west growth corridor.
- Bunnings economic rent is approximately \$280/sqm net, which is a 72% increase from current passing rent.

NOI INCREASE OVER INVESTMENT PERIOD



Stirling has underwritten net passing income at the Centre to increase by 30% over the investment period.

Manage Lease Expiries & Create Value

Actively managing the expiry of the BCF tenancy allows for optionality for further rental growth

BCF TENANCY SPLIT SCENARIO

	EXISTING BCF LEASE	NEW TENANCY 1	NEW TENANCY 2	
GLA (m²)	1,100	792	308	
LEASE EXPIRY	Oct 2027	-	-	
PASSING RENT (gross)	\$329,600	-	-	
VALUER ASSESSED MARKET RENT (gross)	\$357,695	\$319,176	\$143,528	ADDITIONAL VALUE: \$133,104 p.a. capitalised at 6.25% = \$2.1M
INCREASE TO CURRENT BCF RENT	+9%	+35%	+55%	

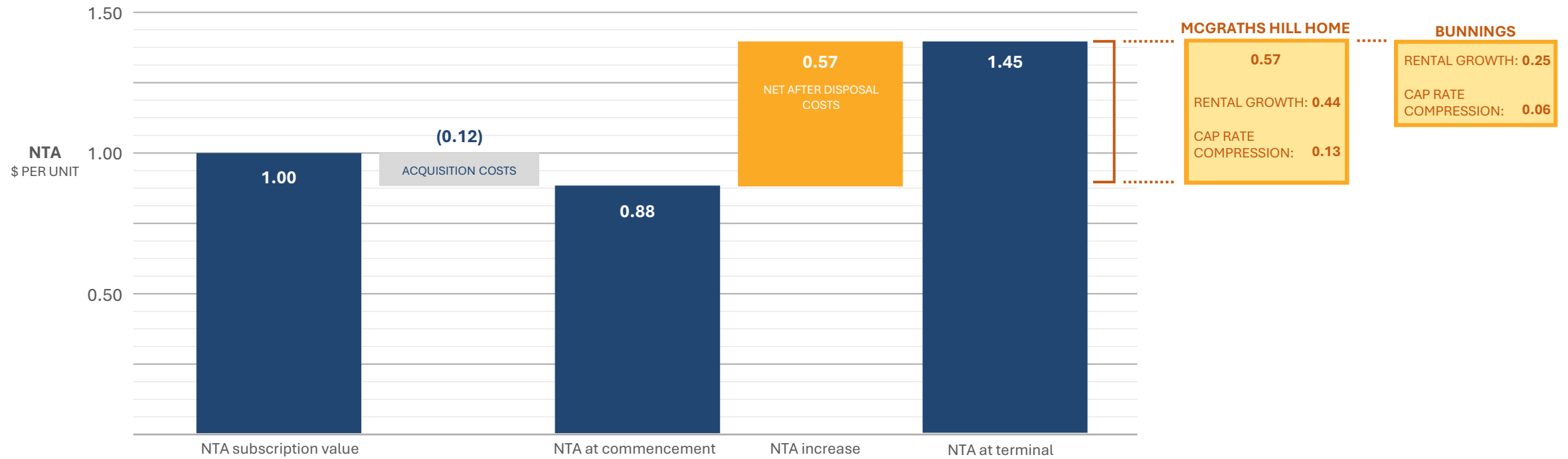
- The rents adopted for New Tenancy 1 and 2 above are based off current rents achieved at the Centre and are supported by the Valuer.
- BCF is the most material lease expiry over the fund term, representing 8% of the Centre income.
- BCF does not have an option in their lease presenting the opportunity to maximise income at lease expiry.
- Either BCF will re-lease at rents forecast to be 9% higher, or Stirling will split the tenancy and re-lease at rents 40% higher, resulting in approximately \$2.1M in capital value.

Note: The above scenario of splitting the BCF tenancy has not been factored into Stirling's underwriting. It is considered an upside scenario should BCF vacate the property.

NTA Growth

77% of the uplift in NTA comes from rental growth

MOVEMENT IN NTA PER UNIT



NTA | Net Tangible Asset

Investment Metrics

Investment returns driven by rental growth and scarcity of LFR investment stock

TARGET FUND TERM

4.5 Years

TARGET CASH DISTRIBUTION

Average 7.1% p.a.

- GTE (47% taxpayer) – 10.0% p.a.
- GTE (15% taxpayer) – 7.6% p.a.

TARGET TOTAL RETURN

14.1% p.a. post fees & expenses

- GTE (47% taxpayer) – 18.7% p.a.
- GTE (15% taxpayer) – 14.8% p.a.

TARGET NTA ON TERMINATION

\$1.45 per unit representing 1.8x equity multiple.

DEBT FUNDING

LVR – commencing 50.0%
Margin – 1.25% p.a.
Financier – St.George Bank

TIMING

Capital commitment required by 16 September 2024.

GTE | Gross Tax Equivalent

