CROMWELL PROPERTY FUND

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The Cromwell Property Fund (CPF) is a diversified, open-ended, unlisted property fund which aims to provide tax deferred[1], monthly distributions from a $465 million Australian property portfolio.

Cromwell refinances CPF debt on favourable terms

In March 2008, Cromwell successfully refinanced debt facilities totalling $261.5 million for the Cromwell Property Fund (CPF) on very favourable terms. This was widely acknowledged as an excellent result for the CPF, in the context of a debt market which has become much more difficult over the past 3 months.

Under agreements negotiated by Cromwell's David Gippel and executed with BNZA, a division of National Australia Bank Limited, the CPF's primary facility of $248 million has been refinanced for a term of three years.

In addition, a $13.5 million facility associated with the TGA Complex in Canberra (1/3 owned by the CPF and 2/3 owned by Cromwell Group), has been extended for an additional three year term. Both facilities were due to expire in March 2008.

The new facilities have been renewed on terms and conditions very similar to those of the existing facilities, with interest rate margins increasing by less than 0.1% pa. This is not expected to have an impact on distributions.

Head of BNZA Mark Yarwood said the quality and diversity of the portfolio, coupled with Cromwell's strong management of the Fund provided BNZA with the confidence to offer the facilities on competitive terms.

Cromwell Chairman Paul Weightman said the securing of the new facilities on favourable conditions in the current market was testament to the quality of the assets and the management of the Fund.

"The cost of the facilities is in line with our forecasts for the Fund and should provide investors' with confidence that a key foundation for the future of the CPF is now locked in until 2011," Mr Weightman said.

"We are aware that debt management is of particular interest in the current market, and we hope that by securing these facilities, investors are further assured of the fundamental quality of the CPF assets and their associated debt arrangements."

Cromwell recognises the importance of producing a predictable income stream for investors and for this reason also actively manages the interest rate risk associated with loans, to minimise the portfolio's exposure to adverse movements in interest rates. Cromwell does this by constantly reviewing economic and market information, maintaining close relationships with the Treasury areas of the major banks in Australia and utilising interest rate swaps that aim to protect the Fund's earnings in the event that interest rates move upwards.

It is now widely considered that we are at, or near the top of the current interest rate cycle, with the chance of any further rate rises diminished.

Many commentators now expect interest rates to begin falling in late 2008 or early 2009, however this is expected to depend on how much the Australian economy slows in response to recent rises over the past few months, and whether the current inflation rate, at around 4%, shows signs of retreating.

Performance Highlights[2]

For the three months to 31 March 2008

Distributions per unit*	**8.0 cents**
Leased	95.35%
Issue (Buy) Price†	$0.9891
Withdrawal (Sell) Price‡	$0.9421

** **Distributions** per unit annualised.*

*† **Issue Price** is shown as at 10 April 2008.*

*‡ **Withdrawal Price** shown is for redemption requests received in March 2008, and was calculated and paid 10 April 2008.*

For further information on movements in the unit price refer to article on page 3.

The Cromwell Property Fund is available on the Macquarie, Net Wealth and BT Wrap (non-super option) and has been independently assessed by PIR and Lonsec.

Property Market Update

The US sub prime debt crisis and movement of the US economy towards recession is now impacting all areas of financial markets, with the S&P/ASX 300 Accumulation Index falling 15.9%, the S&P/ASX 300 Property Accumulation Index falling 24.2% and international shares falling more than 14.5%† for the 12 months to 31 March 2008.

There has been a lot of speculation in the media regarding the impact of this market volatility, and in particular the reduced availability of debt funding, on property prices. Direct property, while insulated from the day to day volatility seen with stock market investments, is still exposed to movements in underlying factors such as interest rates, rentals and general economic conditions. The number and size of property transactions in 2008 so far has been much lower than the corresponding period last year, with cashed up buyers largely sitting on the sidelines. This has further clouded the near-term outlook for property valuations.

Cromwell expects that within the Australian market, the value of good quality, well located property assets will hold up well during the year, with sectors such as the Sydney and Melbourne office and industrial markets expected to outperform other property markets.

The office sector in particular, is expected to continue to do well, as underlying rentals increase in most major capital cities. This is due to the ongoing uptake of space by tenants, leading to very low vacancy rates.

As one example of this, a recent report from Savills Research‡ shows improving fundamentals for the Melbourne office market, with the latest Savills vacancy figures showing a fall in the vacancy rate from 7.1% a year ago to 3.4%. The report also shows rental growth in the Melbourne CBD was substantial, with rents for Premium grade space up 24%, A Grade space 13% and B Grade space 32% during the past year.

Over the past 3-4 years, we have seen a significant decrease in average capitalisation rates of property in Australia, which has been one driver of increasing property values. This has been most pronounced in assets with more inherent risk, as the availability of relatively cheap debt funding made it easier to acquire lower quality assets. For these reasons, we expect these riskier assets to be the properties that suffer the most from any movement in values in the property markets.

The types of assets we expect to be most affected include:

- Property outside major capital cities, and in secondary locations;
- Property in specialised asset classes. These might include hotels, pubs, childcare, storage and retirement assets;
- Development assets without substantial cash flows, which will be impacted by the higher costs of funding during the development period; and
- Property with short term higher risk features, such as near-term potential vacancy, or assets which have been poorly maintained or are in need of refurbishment.

The reduced availability of debt is expected to lead to a reduction in the number of buyers in the market in the short term. Cromwell also expects that later in the year, we may see a higher proportion of forced sales, as some property owners who cannot renew expiring debt facilities on acceptable terms must sell.

Cromwell, as always, intends to stick to the tried and true formula of acquiring good quality assets, in markets where we believe there continues to be upside in rentals, and where we can add value though our intensive property management capabilities. We expect there to be many opportunities as the year progresses to acquire property with these fundamental characteristics, at very good prices.

† MSCI World Ex Australia unhedged

‡ Savills Research "Melbourne CBD Office Market Overview", February 2008.

Circular Quay, Sydney. Properties not owned by the Fund.

Property Revaluations & Unit Pricing Update

In accordance with the Fund's valuation and unit pricing policy, all properties held in the Fund are independently valued annually by a registered valuer. These valuations are staggered through the year so that approximately 25% of the portfolio is valued each quarter.

Based on the property valuations, and the value of other assets such as interest rate hedges, an Issue Price is calculated for the Fund daily and a Withdrawal Price is calculated monthly. This ensures that all investors (those entering, exiting and remaining in the Fund) are treated fairly.

Approximately 25% (by value) of the property in the Fund was independently valued for the March 2008 quarter. Cromwell determined that it was appropriate to include in this revaluation cycle the properties that have the potential to be most impacted by the current market volatility. These included the Prospect Homemaker Centre (12% of total assets), which is currently part way through a major repositioning and refurbishment project, and the Smithfield Industrial property (5% of total assets), which has the shortest weighted average lease term in the portfolio. The recently acquired 1/3 share of TGA property (6% of total assets) was also revalued.

The impact of the revaluations, associated amortisation of acquisition costs and the costs associated with the repositioning of the Prospect property resulted in a decrease of approximately 2.2 cents per unit.

In addition, some changes in the accounting treatment of the Fund's industrial land sites has resulted in a slight decrease in the unit price of approximately 1.3 cents.

The 1/3 share of the TGA property has been revalued upwards by $2.7 million, primarily as a result of an expected increase in rent for the property.

TGA Complex, ACT

The Smithfield property has decreased in value slightly by $0.5 million, primarily due to an increase in the capitalisation rate adopted by the valuer of 0.25%. This reflects the relatively short lease expiry term of this property. We expect to re-lease the entire property within the next 12 months, which would have a positive impact on the valuation.

Smithfield Industrial, NSW

The Prospect property has decreased in value, primarily from an increase in the capitalisation rate of 0.5%, which reflects the fact that the property is halfway through a major repositioning. Despite the reduction in valuation, the repositioning continues to progress well, with a number of major tenants now locked in, and a reconfiguration of some smaller tenancies now commencing. During the next 12 months we expect to have completed the project, with the addition of further quality tenants to the centre. This will put the centre in a good position when the Western Sydney area, which has struggled in the past 18 months, starts to recover.

Prospect Homemaker Centre, NSW

In addition to the changes in the valuations, we have also written off a portion of the original acquisition costs relating to each of these properties, in accordance with our normal policy.

In relation to the Fund's three industrial sites, Cromwell has outsourced the development of the sites to a joint venture between Cromwell and PacLib Group Pty Ltd so that the Fund is not subject to any potential development risk. As such and in line with accounting standards, interest costs previously capitalised by the Fund into the carrying value of the industrial land are now being expensed. This change was adopted during the March quarter as part of the preparation of the half-year accounts. It is important to note that, based on current market and valuer feedback, all three industrial sites are expected to be valued at or above their original purchase price. The joint venture is well advanced on the strategy for each of the properties, and we expect to be able to report more fully on progress in the next quarterly report.

Did you know...

Capitalisation Rate, often abbreviated to 'cap rate', is the net income of a property divided by its value, which reflects the percentage return the market is prepared to accept for the property at a specific point in time.

Cromwell's strategy for the Fund

In line with our opinion that certain sectors of the property market were becoming overheated (Property Market Update, page 2), Cromwell has undertaken a conservative acquisition strategy for the Fund during recent times. In the 9 months to March 2008, CPF has entered into contracts to purchase just two assets, for a combined value of $38.8 million.

The first was the strategic acquisition of the Lido Arcade on the Gold Coast for $12.8 million. This site is adjacent to the Forum Properties already owned by the Fund, giving the CPF complete control of an area of 5,256 sqm. The properties represent a significant value-add opportunity for the Fund, with the location in the heart of Surfers Paradise being a highly desirable site for future redevelopment. The recent success of pre-sales activity for the adjacent Hilton towers and apartment site is also a very positive sign for the Forum/Lido property.

The second acquisition was a 1/3 interest in the TGA Property in Canberra. This property is leased to the Government until 2017, and was acquired at a price which was similar to the last valuation of the property in June 2006.

Cromwell continues to focus the Fund's exposure to market sectors that it believes provide the best growth prospects to investors. As at 31 March 2008, the Fund had 57% of its value invested in commercial office property, the sector that Cromwell, and the majority of commentators believe will continue to outperform in the short-medium term. The Fund also has 65% of its assets in Victoria and NSW (states that Cromwell believes will also outperform) and currently has no exposure to Western Australia or Brisbane (where Cromwell feels commercial property values are overheated).

The majority of Fund inflows during the past 9 months have been applied to the reduction of debt, and providing additional cash reserves for the Fund. We expect this strategy to continue in the short term. We also expect to see further value emerging in the later half of 2008, with the Fund being well positioned to take advantage of selected acquisition opportunities.

The core strategy of the Fund, to invest in quality office, industrial and retail property assets in Australia, has proven to be the correct one given the current market volatility.

With no direct or indirect exposure to offshore property, listed property trusts or alternative asset classes, the Fund is expected to be minimally impacted by volatile market conditions, and well placed to continue to deliver reliable income streams, with good prospects for capital gains in the medium-long term.

Leasing profile at 31 March 2008

	Occupancy				
Property	Leased %	Market Av. %*	Variance %	Valuation ($)	Portfolio %
321 Exhibition Street, VIC	100.0	95.7	▲ 4.3	123,500,000	28
43 Bridge Street, NSW	92.6	97.2	▼ 4.6	40,000,000	8
Lovett Tower, ACT	100.0	99.0	▲ 1.0	77,000,000	16
TGA Complex, ACT (1/3 INTEREST)	100.0	99.0	▲ 1.0	29,333,333	6
Smithfield Industrial, NSW	89.2	-	-	23,650,000	5
Forum Properties, QLD	100.0	93.9	▲ 6.1	53,500,000	12
Home Base Centre, NSW	87.5	-	-	54,800,000	12
Twin Freeway Service Centres, VIC	100.0	-	-	23,850,000	4
Erskine Park, NSW	*Vacant Land*			21,935,000	5
Edinburgh Park, SA	*Vacant Land*			2,700,000	1
Altona, VIC	*Vacant Land*			15,300,000	3
	95.35%			**$465,568,333**	**100%**

** Office market average lease rates are sourced from Property Council of Australia's January 2008 Office Market Report.*

Cromwell Investor Service Team

For the answer to any questions you have regarding the Cromwell Property Fund, please contact the Cromwell Investor Service Team on **1800 334 533** or visit **www.cromwell.com.au**

__(1)__ The proportion of distributions that is tax deferred is dependent on a number of factors (for example building amortisation and depreciation of plant and equipment) and will vary from year to year. Deferred tax may be payable, in whole or in part, on the sale, transfer or redemption of units in the CPF (ARSN 119 080 410). __(2)__ Past performance is not an indication of future performance.

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