Property Review

LONSEC

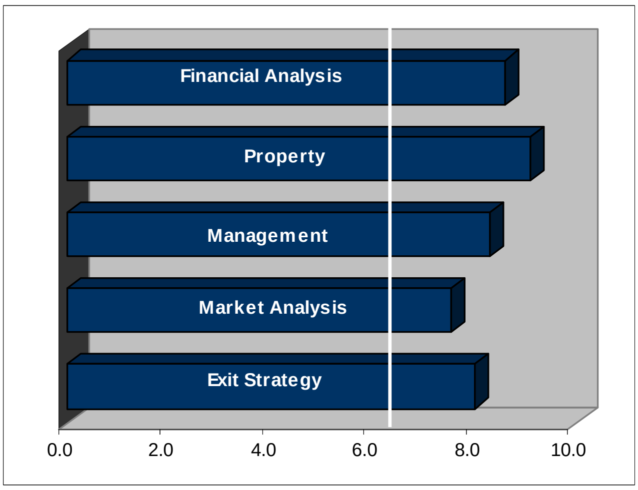
Cromwell Riverpark Trust

Recommended (Upper End)

March 2009

Fund Financial Position	Pro Forma 30 Jun 2009	
Total Assets	$177.2m	
External Debt	$95.2m	
Gearing - LVR	55% (covenant 60%)	
Unit Price - Retail	$1.00	
Net Asset Backing	AIFRS: $0.90 Lonsec Adjusted $0.87 (see Section 3.6 for calculation)	
Portfolio Summary		
No. of Properties	1	
Property Type	93% Office, 7% Retail	
Property Location	100% Queensland	
Wtd Avg Lease Expiry	14.1 yrs	
Vacancy Rate	0%	
Fund Returns	**Lonsec Estimates**	
Est. Trust IRR pre-tax	12.50% p.a.	
(After tax @ 46.5%)	11.68% p.a.	
Year end June	**FY10 est.**	**FY11 est.**
Distribution per unit	8.25¢	8.50¢
Pre-tax Yield @ $1.00	8.25%	8.50%
Tax Deferred	100%	100%
Other Fund Details		
Distribution Paid	Monthly	
Minimum Investment	$10,000	
Investment Term	Closed-end (7-year term)	
Responsible Entity	Cromwell Property Securities Ltd	
Annual Fees and Expenses	0.56% (% of Total Assets)	
Advisor Commission	Upfront 4% (Retail Units)	

Lonsec Ratings of Critical Determinants



Fund Features

Strengths:

- Solid 100% tax deferred distribution yield of 8.5% p.a. upon project Practical Completion (expected June 2010).
- Key tenant Energex (93% of NLA) is a government-owned corporation with a solid credit rating.
- Strong leasing covenants and conservative asset valuation.
- Good estimated total return in excess of Lonsec hurdle rate.
- The Riverpark Building will be Australia's largest six-star rated Green Star accredited office building.
- Bank debt is locally sourced and will not need to be refinanced for three-years (2012).
- Cromwell Group has relevant experience in executing Land and Development Agreements.

Weaknesses:

- Project construction reliant on the ability of the developer (FKP) to meet its contractual obligations.
- Some risk to capital due to initial Loan-to-Value ratio of 55% (bank covenant is 60%).
- Single-asset portfolio not diversified by property sector, geographical location or tenants.

Summary

Cromwell Property Securities Limited (CPSL or the Manager) is looking to raise a maximum of $91m in equity ('the Maximum Subscription) in the Cromwell Riverpark Trust (CRPT or 'the Trust'). The Maximum Subscription will be raised through a combination of Class A units issued under the Cromwell Riverpark Trust PDS (dated 24 February 2009) and Class B units issued to wholesale investors under a separate offer document.

Equity, along with bank debt of $95.15m, will be used to acquire land at 33 Breakfast Creek Road, Newstead Queensland and construct a commercial office building on it (the Riverpark Building). The Building is 100% pre-committed to tenants Energex (office) and FKP (retail).

The Trust is an illiquid closed-end core property trust with a fixed investment term of seven years from inception (expected 30 March 2009).

The Trust's investment objective is to pay investors a minimum distribution yield of 8.25%, earned 100% out of recurring rental earnings, as well as the potential for some capital growth.

Investors should note that the Trust has **exercised an option** to enter into the **Land Purchase Agreement** between CPSL and FKP Commercial Property Pty Ltd (the Developer). The expected settlement date on the agreement is **30 March 2009** upon which the Development Agreement, Tripartite Agreement and Construction Agreements **automatically become active**.

The **terms of the Land Purchase Agreement** ensure that the Trust's contractual obligations only come into effect if:

- $91m in **equity** is raised,
- **Debt facilities** have been finalised on terms acceptable to the Manager;
- The **Energex 'Agreement for Lease' (AFL)** is assigned to the Trust; and
- Consent of the **Green Building Council of Australia,** allowing the assignment and licensing of the Green Star Agreement to the Trust, has been received.

If any of these conditions have not been met then the Trust **will not settle on the Land Purchase Agreement** and all application monies received will be **returned together with any interest accrued**. Interest will be earned at an expected rate of 4.5% p.a. The offer will close at the earliest **of raising the maximum subscription or 30 June 2009**.

Financial Criteria

The Trust's distribution yield over the **construction of the Riverpark Building** (FY09/FY10) is expected to be **8.25% p.a**. Lonsec notes that the distribution will be paid out of a **Funding Allowance** provided for under the Development Agreement with FKP Commercial Property P/L (the Developer). Whilst Lonsec considers this initial distribution to be **capital in nature and non-recurring**, we concede that the distribution is **fully-funded** by the Developer and there is a **significant tax benefit** available to unit-holders in paying a distribution.

The Trust's distribution yield is forecast to **increase to 8.5% upon the completion of the Building** (expected 30 June 2010). The Trust's distributable income is expected to be earned from **rental income** derived from the Energex and FKP leases. The income yield will be paid **100%** out of property portfolio earnings.

Lonsec estimates the **ten-year total return (pre-tax) to be 12.50% p.a.** which is comfortably above Lonsec's benchmark rate (10% p.a.) for this type of core direct property fund.

Lonsec notes that the Trust is forecast to return a **strong after-tax total return of 11.68% p.a.** This is primarily due to the **strong tax advantages** available to investors in investing in a **new building** (tax-advantaged distributions over the life of the investment term).

The Trust's ongoing **Management Expense Ratio (MER) of 0.56%** compares well with Lonsec's sample of unlisted property funds (0.72% of gross assets). On a **total fees basis**, including all establishment and potential back-ended fees, the Trust is situated well **below the Lonsec average** for unlisted property funds. This is primarily due to the low annual fee, competitive performance fee structure and lower gearing ratio.

The property has been **independently valued** on an 'As is Complete' basis at **$173m**. The independent valuer, LandMark White, has adopted a **capitalisation rate of 7.62%** in the valuation of the property. Lonsec has reviewed the **capitalisation rate assumptions made by the valuer** and considers these to be **conservative** and based on prevailing market **sales evidence**.

The Manager has entered into **indicative terms** with two **AA-rated Australian banks** for a Loan Facility of **$95.15m** to be drawn down progressively over the construction project. Key terms for the potential facility include that the bank loan **expires no earlier than 31 March 2011**, the interest rate is **hedged** for a minimum of three years from 1 July 2010, and the terms of the loan do not have a **material adverse impact** on the Trust's distribution forecasts.

Key **bank loan covenants** will include that the Trust's **Loan to Value Ratio (LVR)** must not exceed **60%** and **Interest Coverage Ratio (ICR)** must be greater than **2x**. Lonsec notes that the expected Trust LVR upon building completion is 55%, below the 60% threshold. Thus the property valuation would have to **decrease to $158.8m** for the LVR covenant to be **breached**. This represents a capitalisation rate of 8.31%, a 70 basis point spread to the current yield adopted by the external valuer.

The Trust's Interest Coverage Ratio (ICR) is expected to be in **excess of 2.5x** for the syndicate term. This is **very strong** with sufficient capacity to absorb a doubling in interest costs.

The Trust **Net Tangible Asset (NTA) per unit** is expected to be $**0.87** upon building completion. NTA per unit is expected to reach $1.00 (break-even for investors) within approximately **two years** from the inception date. This is **superior** to other unlisted funds rated by Lonsec which typically have a break even period of between 4-5 years. The robust NTA breakeven position is attributable to the **stamp duty benefit** available to the Trust in acquiring the property through a Land Purchase and Development Agreement and the strength of the Energex lease covenants.

Lonsec notes that the Trust's NTA is **sensitive** to any further **deterioration in capitalisation rates** as the Trust will be a **geared investment product** (see Section 3.6 'Balance Sheet' for the sensitivity analysis performed).

Management Criteria

Cromwell Property Securities Limited (CPSL) has a solid **track record** in delivering returns in-line with the **Mercer Unlisted Property Fund Index (MUPFI)**. Lonsec notes that all nine of the CPSL trusts that were amalgamated into the Cromwell Group (in December 2006) had **out performed the MUPFI since inception**. However the current CPSL flagship unlisted fund, the **Cromwell Property Fund**, has **underperformed** the MUPFI by -10.88% since inception.

CPSL's parent company, the **Cromwell Group**, has a Board of Directors and Senior Executive team that has a **depth of experience** in both property investment and funds management. The Cromwell Group currently employs **61 full-time property professionals** (across all disciplines), representing a FUM per staff member of $28.6m.

It is the intention of CPSL to have a **specific asset manager and financial analyst** assigned to the Trust.

The Cromwell property acquisitions team has specific **experience** in project managing **more complicated delivery and construction programmes** to project completion.

Property Portfolio Criteria

The Manager has exercised an option to enter into a **Land Purchase Agreement and Development Agreement** to acquire the **Riverpark Building** (the Building), a seven-storey, 30,904 m^2 office building located in **Newstead, Queensland**. In terms of this building, Lonsec notes that:

- It will be **93% let upon completion to Energex Limited**, a **AA+ rated Queensland government corporation** that provides electricity transmission services to the South East Queensland market;
- The remainder of the area (2,163 m^2) is subject to a **vendor lease** for a five-year period, supported by a **$5m bank guarantee**;
- It will be Australia's largest **six-star rated Green Star accredited** office building;
- The property is **well located** in the master-planned Newstead Riverpark on Breakfast Creek Road (2km from the Brisbane CBD);
- The Energex lease is **longer-term in duration** (expires 2025) and has **strong leasing covenants**, resulting in a strong weighted-average lease expiry (WALE) of 14.1 years and fixed annual rental increases of 3.75%.

The **counter-party** to the Development Agreement will be **FKP Commercial Property Pty Ltd** (the Developer). All development obligations will be **guaranteed by the Developer's parent company**, the ASX-listed FKP Limited. In addition to this guarantee, the Developer is required to provide a **$20m Bank Guarantee** on the commencement of the Development Agreement.

Lonsec notes that the Trust will be **reliant on FKP** to develop the Riverpark Building. As the construction industry is facing **significant headwinds** due to the expected downturn in the Australian economy, there is a risk that FKP will **not be able to meet its contractual obligations**. The Manager has taken **steps to mitigate this risk** through a Developer bank guarantee ($20m) and the existence of step-in rights in the Development and Construction Agreements with FKP.

Lonsec notes that Energex may only **terminate the Energex 'Agreement for Lease' (AFL)** if the Building has not been completed by **30 June 2013**, in excess of the current estimate for practical completion of 30 June 2010.

Market Criteria

The impact of the recent turmoil in credit markets on **property valuations** is now being felt across prime office stock in the Brisbane **'near-city' office market**. Recent sales evidence has provided **confirmation of yields softening**, with prime commercial yields increasing by 50-100 basis points.

Lonsec notes that **softening lease markets** will provide further potential downside for office valuations due to the forecast for **static rental growth** in the face of burgeoning **sub-leasing space** and landlords requiring **higher lease incentives** to attract blue-chip tenants.

Average prime yields across the 'near city' market are now 7.85%, **a premium of 460 basis points to cash rate** (RBA announcement February 2009). This spread is thus at historically high levels and this provides Lonsec with **greater comfort** that yield expansion in the premium office market is **nearer to cyclical highs** as risk becomes fully priced in to commercial yields.

Going forward, office yields will be determined by the **fundamentals of individual commercial assets** (i.e. lease profile, demographic factors and building quality). Lonsec considers that energy-efficient buildings with Green Star ratings will **start to attract a premium** due to strong expected demand from institutional investors.

Exit Strategy Criteria

An investment in the Trust will be **illiquid** under ASIC guidelines. The Manager **will not be offering** investors any **liquidity mechanism** over the Trust's seven-year investment term.

Lonsec is **not aware of any impairment issues** relating to the potential sale of Riverpark Building. The Building is **well located** in an emerging 'city fringe' location and should be **readily saleable to institutional investors**.

Investors should note that the market for institutional grade buildings is **still highly illiquid** due to on-going dislocation in credit markets and the impact this has had on **institutional investors** (i.e. wholesale funds and A-REITs). Private investors are the only net purchasers currently active in Brisbane commercial property markets and their focus has tended to be on the **sub-$100m commercial space**.

Risk Factors

Lonsec rates the **key risk factors** associated with an investment in the **CRPT** as follows:

Risk Factors Table	Low	Med	High
Operational Earnings			
Business	Low		
Leasing	Low		
Capital Gain vs. Income	Low		
Diversification		Med	
Market Volatility		Med	
Financial			
Leverage (gearing)	Low		
Refinancing	Low		
Interest Cost / Hedging	Low		
Currency	Low		
Counterparty		Med	
Support to Distributions	Low		
Management & Others			
Related Party Transactions	Low		
Experience	Low		
Independence	Low		
Liquidity		Med	

Thus Lonsec considers the **key risks** to be:

- The property portfolio is a **single-asset portfolio** with 93% of NLA to be let to Energex Ltd. Thus the portfolio rental stream is **not diversified** by tenant, sector or geographical location;
- The Riverpark Building will be a premium-grade office building that will be **suited to institutional investors**. This investor class is currently a **net seller of property assets** due to the continued dislocation in credit markets;
- The Trust is a **geared investment structure** (initial LVR of 55%); thus any further **softening** in **prime office capitalisation rates** could put pressure on banking covenants and distributions;
- The Trust will be reliant on the FKP Group to develop the Riverpark Building. Thus there is a risk that FKP will **not be able to meet** its contractual obligations.

Taking all these factors into consideration, Lonsec considers and investment in the Trust to be of **medium risk up to the Practical Completion date** (expected June 2010), **and low risk thereafter** once rental income is being earned.

Conclusions & Rating

Lonsec has commenced coverage of the Cromwell Riverpark Trust with an **initial rating of Recommended (Upper End)** on the basis that:

- The Trust offers investors a **total return in excess of Lonsec's sample** of unlisted property trusts rated over the last 12-18 months;
- The Trust has a **good distribution yield of 8.50%** post building completion that is expected to be paid **100% out of recurring rental income**;
- 93% of NLA will be leased to Energex Ltd, a **government-owned corporation with a solid credit rating**. The Energex lease has **strong leasing covenants and a fifteen-year term**.
- The Trust offers a **total fee structure that is very competitive** compared with industry norms**;**
- The Trust is **conservatively valued;** and
- The Manager is an **experienced fund and property manager** with a **good track record of delivering investment returns** above the Mercer Unlisted Property Trust Index.

Lonsec notes that the investment is not without some risk. These include:

- The construction of the Riverpark Building is **reliant on FKP's** ability to meet its contractual obligations. The Manager has **alleviated this risk** to a degree by the inclusion of **step-in rights and a Bank Guarantee ($20m)** in the Development and Constructions agreements;
- The single-asset property portfolio is **not diversified** by property sector, geographical location or tenants; and
- The Trust's **Loan-to-Value ratio (LVR)** upon the completion of the Building (expected June 2010) will be **55%** compared to a **banking LVR covenant of 60%**.

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1. Lonsec Methodology

Lonsec Property Research provides quality research services to investment managers and financial planning groups. Our reports assist financial planners in the selection and understanding of unlisted property trusts/ syndicates, property securities funds and other managed investment products. Experienced analysts have conducted an extensive and objective review of the Fund and its underlying assets.

The research methodology includes a rating process designed to assess the qualitative and quantitative factors of the investment.

The process is consistent for comparable investment products, enabling projects to be individually rated, comparatively ranked, and to establish a Lonsec Research recommendation status for use by financial planners.

The rating determinants are:

- Financial Analysis
- Properties
- Management
- Market Analysis
- Exit Strategy

This report, dated March 2009, expires when the initial offer closes or after twelve months or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to his offer. Lonsec reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

Lonsec Property Research Rating Definitions

Highly Recommended	Projects in this exclusive category possess exceptionally high ratings in most of our assessment areas and are considered to be the most favoured investment alternative.
Recommended (Upper End) Recommended (Lower End)	This category includes projects that are rated as having good to excellent all-round performance potential in relation to their peers. They are suggested better investment alternatives. The ratings distinguish between projects at the upper and lower ends of this category
Investment Grade	Projects that fall into this category have satisfied Lonsec's rigorous analysis criteria and are viewed as acceptable for investment.
Not Approved	The project has failed one or more of Lonsec's major investment rating determinants. We advise that projects that fall into this grouping are detrimental to an investor's overall investment portfolio.

2. Overview

2.1. The Cromwell Riverpark Trust

Cromwell Property Securities Limited (CPSL or the Manager) is seeking to raise a maximum of $91m in equity ('the Maximum Subscription'), along with bank debt of $95.15m, in the Cromwell Riverpark Trust (the Trust or CRPT). The Trust is an unlisted core property trust that will use the subscription monies raised to acquire land at 33 Breakfast Creek Road, Newstead (Qld) and construct a commercial office building on the site (the Riverpark Building) for a fixed cost of $163m.

The Maximum Subscription will be raised through the issue of a combination of Class A units under the Cromwell Riverpark Trust Product Disclosure Statement (dated 24 February 2009) and Class B units offered to wholesale investors under a separate offer document.

Class A retail units will be offered to investors at an issue price of $1.00 (includes all establishment fees). The Class B wholesale offering is outside the scope of Lonsec's review. However, in terms of pricing, we note that the Class B wholesale investors will not pay the 4% contribution fee. The Manager is also able to rebate the acquisition fee to wholesale investors if it is deemed to be appropriate to do so (the decision will be based on the volume of units subscribed for).

The offer will close on the earlier of the Maximum Subscription being raised or 30 June 2009, provided that debt funding is finalised on terms acceptable to CPSL.

Assuming all conditions for settlement of the Land Purchase Agreement have been met (see section 5.2), on the day prior to settlement Class A units will be issued to unit-holders if:

- The offer under the Class A PDS and Class B offer document has raised, or is likely to raise, the Maximum Subscription amount of $91m; and
- Debt funding has been finalised on terms acceptable to CPSL in its absolute discretion. These include:
    1. That the Bank Loan expires no earlier than 31 March 2012;
    2. That the Loan Facility interest rate is hedged for a minimum of three years (from 1 July 2010); and
    3. That the terms of the loan agreement do not have a material impact on the PDS distribution forecasts.

If any of these conditions have not been met then all application monies raised to date will be returned to investors together with any interest accrued. Interest will be earned at an expected rate of 4.5% p.a.

2.2. Investment Limits / Applications

The minimum investment in units of the Trust is $10,000 for retail investors. The entry price is $1.00 per unit.

2.3. Income Distributions

The commencing annual income distributions are forecast to be 8.25¢ per unit. Until Practical Completion of the Riverpark Building (expected June 2010), the Trust will pay distributions to unit-holders from a Funding Allowance provided by FKP (the Developer). The allowance compensates the Trust for the cost of funding the development project.

Upon the completion of the Building, the Trust will begin to earn rental income from its tenants and this will be the sole source of distributions going forward. It is forecast that distributions will increase to 8.50¢ per unit at this time.

Investors should note that the ability of the Trust to pay distributions is not guaranteed by the Manager and will be dependant upon the Trust's ability to continue to earn rental income (amongst other factors).

It is the Manager's policy to distribute an amount which is no more than 100% of the expected Trust profit available for distribution. Thus the Manager supports a sustainable distribution policy.

A significant portion of distributions paid to investors will be tax advantaged. This is due to capital allowances available for structure, plant and equipment and the writing-off (over time) of capital raising and borrowing costs.

2.4. Source & Applications of Funds

	PDS Raising
	$m
Equity Raised	$91.00
Borrowings	$95.15
Total Sources	**$186.15**
Land Purchase & Building Construction	$162.19
Stamp Duty	$0.77
Other Property Acquisition Costs	$0.20
RE Fees & Advisor Commissions	$8.92
Other Establishment Costs	$1.07
Distribution - Construction Period	$9.38
Interest Rate Derivatives	$2.60
Cash/Working Capital	$1.02
Total Applications	**$186.15**

2.5. Overview of the Trust's Investment

Architects Impression – Riverpark Building

Direct Property Investment

Property	Suburb	State	Sector	As is Complete Realisable Value $'m	Valuer Capitalisation Rate	Valuer Discount Rate	NLA m2
Riverpark Building, 33 Breakfast Creek Rd	Newstead	Qld	Office	173.0	7.62%	9.8%	30,904

Tenancies – Riverpark Building

Tenant	Passing Gross Rent (Upon PC) $/sqm	NLA m2	Expiry	Review
Energex	455	28,614	Jul-25	> CPI or 3.75%
Ground Café	1,248	57	Nov-13	Vendor lease (FKP)
Ground Retail	523	775	Nov-13	Vendor lease (FKP)
Ground Showroom	598	1,458	Nov-13	Vendor lease (FKP)

(Source: Cromwell Group and LandMark White Valuation Report 28 January 2009.)

3. Financial Analysis

3.1. Income/Expense Analysis

	Jun-10 (15 mths) $m	Jun-11 (12 mths) $m
Property Income	0.00	13.37
Funding Allowance	9.22	0.00
Interest Income	0.28	0.05
Total Income	**9.51**	**13.41**
Management Fee	0.00	-0.89
Other Expenses	-0.12	-0.10
Interest Expense	0.00	-4.66
Total Operating Expenses	**-0.12**	**-5.65**
Net Operating Income	**9.38**	**7.76**
Income Support	0.00	-0.03
Net Distribution	**9.38**	**7.74**
Ord Units Issued (m)	91.0	91.0
Distrib./Unit (Annualised) #	8.25c	8.50c
Yield (Annualised)	**8.25%**	**8.50%**

(Note #: Annualised return measured over the 15-month construction period March 2009 to June 2010.)

Assumptions underlying income

In Lonsec's view the Manager has made allowances in the income statement in-line with the contracted provisions in the Land Purchase and Development Agreements made with FKP Commercial Developments Pty Ltd (FCD or 'the Developer'**)** and the Energex 'Agreement for Lease' (AFL). All key assumptions are in accordance with the external valuation provided by LandMark White (January 2009).

Key provisions and assumptions include:

- A Funding Allowance will be paid to the Trust over the remaining construction period (expected to be March 2009 to June 2010). The funding allowance is calculated at a rate of 10% p.a. on all payments made by the Trust in acquiring the land and development project (including all development fees).
- The Practical Completion (PC) date for the Riverpark Building is expected to be 30 June 2010, upon which Energex and FKP will start to pay rental income;
- Net property income is as per the assigned Energex AFL and the FKP Development agreement. See Section 5.5. 'Key Tenant Analysis' for further details;
- Cash holdings will earn an interest rate at 4.5% p.a.;
- A weighted average portfolio interest rate of 4.9%-5.1% has been adopted when calculating the interest expense;
- A Manager's Fee structure as allowed by the Trust's Constitution has been adopted (see Section 3.4 'Manager's Fee Structure'); and
- All distributions will be 100% tax deferred.

Lonsec notes that the Development Agreement provides for the Developer to pay the Trust a Funding Allowance over the expected 15-month construction period remaining. Given that the maximum land and development cost is fixed at $158m and is net of this allowance, investors should consider this initial distribution to be capital in nature and thus non-recurring.

The Trust will only begin to pay distributions from recurring rental income upon the Practical Completion date of the Building being reached (expected June 2010). However Lonsec concedes that the reason for paying out the Funding Allowance as a distribution is the significant tax benefit that unit-holders receive from investing in a newly constructed building (100% tax-deferred distribution).

3.2. Total Returns

The key financial performance measure on which Lonsec focuses is a Trust's Internal Rate of Return (IRR), typically modelled over a ten-year investment horizon. The advantage of this approach is that it summarises the initial investment and all subsequent cash flows, including the final payout to investors, as a single number which may be compared to Lonsec's benchmark discount rate and a comparable population of direct property funds.

Lonsec estimates that the Trust will deliver investors with a pre-tax total return of approximately 12.5% p.a. over a seven-year term (after deducting for all fees). This return comfortably exceeds Lonsec's benchmark rate of 10% for this type of core single-asset direct property fund. The benchmark return is 100 basis points higher than for a more passive diversified property funds. This is due to the increased risk profile of the Manager's pre-purchase and single-asset strategy.

The Trust's total return is in excess of the sample of unlisted property funds assessed by Lonsec over the last 12-18 months (10.3% p.a.). It is also in excess of the sample of fifteen diversified income-type funds rated by Lonsec over the last 12-18 months (10.3% p.a.). Given the increased diversification and counter-party risk that an investment in the Trust entails, Lonsec would expect a total return for the Fund in excess of more passive diversified income holdings.

Lonsec Internal Rate of Return (net after fees)

	Pre-tax Total Return	After Tax Total Return*
Cromwell Riverpark Trust	**12.50%**	**11.68%**
Lonsec Benchmark Rate #	10.00%	6.30%
Lonsec Unlisted Avg #	10.40%	8.30%

(Note*: After tax of 46.5% and net of capital gains tax. Rolling 12-18 months basis.)
(Note #: Returns for open-end funds are typically modelled over a ten-year period.)

Underlying Assumptions IRR Calculation

Lonsec has made the following assumptions in determining the Fund's 10-year IRR projection. Assumptions have been made in line with external valuation reports as well as the contracted provisions made in the Land Purchase and Development Agreements with FCD and the Energex AFL. Lonsec has also relied upon a financial model prepared by the Manager.

Key assumptions include:

- The Building will be developed at a fixed-cost of $158m. Practical Completion (PC) will be June 2010 upon which the Energex and FKP leases will commence;
- The portfolio rental growth rate over a seven-year period is expected to be 3.75% p.a., in-line with the Energex AFL and the FKP Development Agreement;
- Recurring capex of $0.15m p.a. will be incurred. All capex will be paid out of the Fund's current cash reserves and are already fully funded. Note that the Riverpark Building is covered by a twelve-month defect liability period post PC that is secured by a $3m Bank Guarantee provided by the Developer;
- Lease incentives of $0.2m have been provided for at the end of the FKP-guaranteed lease (five-year term) of the retail tenancies. A letting allowance of six-months has also been provided for;
- Property outgoings growth has been capped at CPI (assumed to be 2.5% p.a.);
- A Manager's Fee structure, as allowed within the Fund's Constitution, has been adopted (see Section 3.4 'Manager's Fee Structure');
- A portfolio interest rate of 4.9%-5.35% has been assumed for the duration of the Trust term;
- No income support will be needed; and
- A conservative property capitalisation rate of 7.25% has been adopted, leading to a property growth rate of 3.75% p.a.

As an additional conservative measure, Lonsec has reduced the property growth rate by 75 basis points p.a. due to the current uncertainty in property markets in the face of severe dislocation in global credit markets.

Lonsec notes that the Trust is forecast to return a strong after-tax total return of 11.68% p.a. This is primarily due to the tax benefits available to investors in investing in a new building (tax-advantaged distributions over the life of the investment term).

Sensitivity Analysis

Lonsec has stress-tested the performance of the Trust under the differing scenarios summarised in the table below.

Sensitivity of Lonsec IRR to Key Assumptions

Scenario	Pre-tax IRR %
Lonsec Base Case	**12.5%**
10% Increase Outgoings	12.3%
50 bp Increase Fund Interest Rate	11.4%
10% Decrease Terminal Property Value	9.6%

The total return available to unit-holders is particularly sensitive to adverse movements in the terminal yield achievable for the Building. A combination of any of the above factors is likely to have a material impact on the Trust's financial performance. Conversely, any improvement achieved in key drivers of the Trust's total returns will have a strong positive impact on the total return achieved by investors.

Lonsec has not stress tested the total return's correlation to revenue growth assumptions or delays construction due to:

- The strong lease covenants of the Energex lease, with rent reviews fixed at 3.75% p.a. over the fifteen-year term of the lease; and
- The Trust being protected from potential construction delays by a robust $20m bank guarantee provided by the Developer.

3.3. Debt Position / Interest Costs

The construction of the Riverpark Building will be partially funded by a Bank Loan facility of $95.15m secured against the property.

The Manager has received indicative terms from two AA-rated Australian banks and thus expects to finalise the Bank Loan on the terms presented in the following table. Lonsec has reviewed the indicative term sheet.

Key Terms Trust Loan Facility

Indicative Terms	Details
Borrower	Cromwell Property Securities Ltd as Responsible Entity of the Cromwell Riverpark Trust.
Facility Limit	$95.1m
Facility Term	Total of three-years from the date of settlement (expected 30 March 2009).
Loan Purpose	To assist with the development of the development project on the Property and to provide term-finance following Practical Completion.
Loan to Value Ratio (covenant)	Not greater than 60%.
Interest Cover Ratio (covenant)	Not less than 2x following Practical Completion.
Establishment Fee	0.60% of aggregate Facility Limits (50% payable upon acceptance).
Interest Rate	Market (Competitive)

Lonsec notes that Class A units will not be issued to investors if debt funding has been not been finalised on terms that are acceptable to CPSL at its absolute discretion. Investors should note that an update on the Loan Facility will be provided on the company's website (www.cromwell.com.au/crt/updates) once the term sheets have been finalised.

Lonsec estimates that upon Practical Completion (30 June 2010) the Trust will have fully drawn down the Bank Loan of $95.15m, giving the Trust a Loan to Value (LVR) ratio of 55%. The LVR is lower than the average for Lonsec's unlisted property fund sector of 58% and below the required loan covenant of 60%. Lonsec notes that the 'As is Complete' valuation for the property would have to decrease to $158.8m for this covenant to be breached. This represents a capitalisation rate of 8.31% or a 70 basis point spread to the capitalisation rate of 7.62% adopted by the external valuer in the January 2009 valuation (see section 5.6 'Property Valuation' for a further evaluation of the capitalisation rate adopted by Landmark White and Lonsec).

Lonsec also notes that the Trust's Interest Coverage Ratio (ICR) is expected to be in excess of 2.5x after the completion of the Building, well in excess of the required 2x ICR covenant.

While the loan facility will have a variable interest rate structure at a competitive margin, the Manager will hedge the interest rate for a minimum of three years at the prevailing swap market rate. Thus the Manager has assumed that the interest rate will be fixed at an average rate of 5% for the three-year hedging period.

3.4. The Manager's Fee Structure

The Trust constitution prescribes the fees that the Manager is entitled to. All fees are summarised below.

Establishment Costs and RE Fees

The Manager will be entitled to the following fees:

- An Acquisition Fee of 3% of the real property gross asset valued of $173m, which is $5.19m. This fee is payable upon settlement of the Land Purchase Agreement; and
- A Debt Arrangement Fee of 0.4% of the amount of any debt facilities procured by the Manager on behalf of the Trust. On an estimated facility of $95.15m, this fee will be $0.38m. This fee is payable upon any drawdown of the debt facility.

The Manager is also entitled to charge the Trust a Contribution Fee at the time of any investment made (built-in to the $1.00 Issue Price). The fee is 4% of the application monies invested. The Manager may pay a commission to appropriately licensed financial advisors out of any Contribution Fee collected.

Total establishment fees are estimated to be 5.4% of total assets upon trust inception (assumed to be 30 June 2009). This is on a par with the Lonsec unlisted trust average (5.5% of total assets).

Total Establishment Cost Comparison

Establishment Costs	Total Costs $'m	% of Assets	% of Equity
RE Fee	8.9	5.0%	9.8%
Other Est. Fees	0.7	0.4%	0.8%
Total	**9.6**	**5.4%**	**10.6%**
Lonsec Unlisted Avg		5.5%	11.9%

On-going Management Fees

An annual Management Fee of up to 0.6% p.a. of the Trust's gross asset value will be paid to the Manager. For the 12-month period post-Practical Completion (FY11), Lonsec estimates that that the fee will be approximately 0.56% of total assets.

Further the Manager is entitled to recover any out-of-pocket trust expenses incurred in running the Trust. These are estimated to be up to 0.10% p.a. of the Trust's total asset position.

The following tables compare the Trust estimates for the FY11 MER/ICR with Lonsec's unlisted sector average.

Comparison of Management Expense Ratio

	M/ment Fee	Other Exp	Total MER
C'well Riverpark Trust	**0.50%**	**0.06%**	**0.56%**
Lonsec Unlisted Avg.	0.57%	0.15%	0.72%

Comparison of Indirect Cost Ratios

	M/ment Fee	Other Exp	Total ICR
C'well Riverpark Trust	**1.08%**	**0.12%**	**1.20%**
Lonsec Unlisted Avg.	1.28%	0.35%	1.63%

Thus the Trust's expected annual fees and expenses ratios is very competitive when compared to the Lonsec unlisted trust average.

Performances Fees

The Manager is entitled to be paid a performance fee upon the sale of any property held by the Trust. The amount of the performance fee will be 10% of the excess return above a benchmark IRR of 10% over the life of the investment in the Riverpark Building.

Cromwell Property, a related entity, may also act as the selling agent of the property, in which case it is entitled to a sales fee of up to 1% of the sales price (upon settlement) of any such sale.

Removal Fees

The Manager is entitled to a Removal Fee of 3% of the gross value of the Trust if CPSL is removed as Responsible Entity of the Trust.

Waiver or Deferral of Fees

The Manager may at its discretion partially or fully waive or defer any fees that it is entitled to. Where fees are deferred the Manager may demand payment of these if it is removed as Responsible Entity.

CPSL has not deferred, nor is expected to defer, its entitlement to any fees in the current offer.

Total Fees Comparison

Lonsec has estimated the present value of total fees and expenses paid to the Manager by the Trust over a ten year period to take into consideration the differences in timing of initial establishment costs, on-going expenses and back-end performance or disposal fees. In order to calculate performance fees Lonsec has assumed a 30% increase in the gross asset value over the period.

Comparison of PV of Total Fees

	% Total Assets	% Net Assets
C'well Riverpark Trust	**8.2%**	**14.8%**
Lonsec Unlisted Avg	11.1%	22.0%

The Trust's present value of total fees and expenses as a percentage of total assets and net assets is well below the Lonsec unlisted trust sample average due to the lower annual fees/expenses and competitive performance fee structure. In particular, the Trust compares very favourably on a net asset basis due to the lower gearing ratio.

3.5. Distributions / Taxation

CRPT Distributions

Manager Forecasts	FY10	FY11
Distribution/unit	8.25c	8.50c
Pre-tax Yield*	8.25%	8.50%
Tax Advantaged	100%	100%
Yield after 46.5% tax	8.25%	8.50%
Grossed-up Yield	15.42%	15.89%

(Note *: Based on the current retail unit price of $1.00.)

Lonsec Industry Distributions Comparison

Fund/Sector (Estimated FY10)	Pre-tax Yield	Tax Def.	After tax Yield*
C'well Riverpark Trust	**8.25%**	**100%**	**8.25%**
Lonsec Unlisted Avg.	7.90%	93%	7.50%

(Note*: After tax of 46.5%. Rolling 12-18 month basis).

Lonsec has compared the distribution yield of the Trust with a sample of unlisted direct property trusts that have made offers to the public over the last 12-18 months. The Fund's pre-tax yield of 8.25% p.a. (FY10) is higher than the Lonsec unlisted trust average. The Fund's pre-tax yield is expected to increase to 8.5% in FY11 upon the completion of the Riverpark Building. The Trust's income yield is expected to be paid 100% out of rental income in FY11 (see section 3.1 'Income/Expenses Analysis' for further details).

Capital allowances for structure, plant and equipment and the writing-off (over time) of capital raising and borrowing costs means a significant portion of distributions paid to investors will be tax advantaged (expected to be 100% in FY10-FY11).

3.6. Balance Sheet

As at end	Jun-10 $m	Jun-11 $m
Cash	$1.17	$1.19
Property Value	$173.00	$191.30
Derivative Financial Assets	$2.60	$2.60
Other Capitalised Expenses	$0.42	$0.18
Total Assets	**$177.19**	**$195.27**
Interest Bearing Loan	$95.15	$95.15
Total Liabilities	**$95.15**	**$95.15**
Net Assets	**$82.04**	**$100.12**
No. of Units Issued	91.00	91.00
Lonsec NTA per unit	**$0.90**	**$1.10**
Less Lonsec Adjustments		
Derivative Financial Assets	$2.60	$2.60
Lonsec Adj. NTA per unit	**$ 0.87**	**$ 1.07**

Lonsec has presented the Trust's pro-forma balance sheet upon Practical Completion (expected June 2010). The Trust's adjusted NTA per unit is estimated to be $0.87 at 30 June 2010, increasing to $1.07 per unit in June 2011 due to the property's rental stream increasing by a minimum rate if 3.75% p.a. This assumes that capitalisation rates remain steady and capital expenditure in excess of $0.15m p.a. is not required.

The current Lonsec adjusted NTA per unit adjusts the Net Asset position of the Trust for a 'Derivatives Financial Assets' non current asset of $2.6m. Lonsec has adjusted the pro-forma NTA per unit to reflect that the value/liability attached to these interest rate swaps will be nil upon expiry

Lonsec anticipates that the Fund's NTA will exceed investors' initial $1.00 within approximately two years of the Trusts commencement date. Thus the break-even period for the Trust is superior to that of other unlisted funds rated by Lonsec, which typically have a break-even period of between 4-5 years with an initial NTA of $0.83 based on a $1 entry price.

Lonsec notes that the superior NTA breakeven position is attributable to the stamp duty benefit available to the Trust in acquiring the property through a Land Purchase and Development Agreement rather than buying stock on the secondary market. The Manager has estimated that this has saved the Trust approximately $8.3 million in stamp duty.

NTA Sensitivity Analysis – Capitalisation Rates

Cap. Rate	Sensitivity Factor	'As is Complete' Valuation Jun'10 ($'m)	Lonsec Adjusted NTA/unit
7.62% *	-	173.00	$0.87
7.87%	+25 bp	167.50	$0.81
8.12%	+50bp	162.35	$0.76

(Note *: Capitalisation rate adopted by LandMark White in the January 2009 'As is Compete' valuation for the Building.)

Lonsec has conducted sensitivity analysis on the Trust's NTA position by assuming that a further 25-50 basis point softening in capitalisation rates is suffered by the Brisbane 'near city' prime office market. Thus a further 25 basis points capitalisation rate softening would lead to the NTA decreasing to $0.81, with a further 50 basis point softening leading to the NTA decreasing to $0.76.

Any deterioration in the property's valuation will also have an impact on the Trust's gearing ratio, MER/ICR and the total return on equity that is achievable.

Lonsec notes that any firming of capitalisation rates across the prime office market will lead to an increase in the NTA per unit. We have assumed an average capitalisation rate of 7.25% over the seven-year term of the Trust.

4. Management

An assessment of Management is another key performance measure and is largely qualitative, focusing on the ownership, operating and reporting structure, property investment policy and property selection criteria. Capable and experienced management is vital to the success of the Trust.

Previous performance is evaluated but is not necessarily a guide to future returns.

4.1. The Responsible Entity (RE)

Cromwell Property Securities Limited (CPSL) (ACN 079 147 809, AFSL 238052) will act as Responsible Entity (RE) for the Cromwell Riverpark Trust (CRPT or 'the Trust').

CPSL is a specialist funds management company licensed by the Australian Securities and Investment Commission (ASIC) to act as the Responsible Entity for a range of managed investment schemes (MIS). CPSL is also the RE of the Cromwell Diversified Property Trust (CDPT), units of which are stapled to shares in the Cromwell Corporation Limited (CCL). The stapled securities are listed on the Australian Securities Exchange (ASX). CPSL is a 100%-owned subsidiary of CCL.

CCL first listed on the ASX in 1972. In December 2006 the Directors made the decision to staple the listed CCL to the unlisted CDPT (the direct property trust was first formed in 2003) to create the listed A-REIT Cromwell Property Group (CMW or the Group). The Directors of CMW completed a significant portfolio rebalance (including asset sales) during 2007 to reduce the gearing of the listed stapled security structure (circa 35% as at December 2007) as well as strengthen cash reserves and strengthen the Group's balance sheet.

CMW operates wholly within the domestic Australian market with a deliberate focus on the eastern seaboard commercial office market. The Group has no exposure to off-shore property markets. Debt funding for CMW and CPSL-sponsored unlisted property trusts is provided by a panel of 'Big Four' domestic banks.

CMW has a defensive revenue stream and a sound balance sheet with net tangible assets exceeding the strict requirements imposed under its Australian Financial Services Licence.

CMW has recently (ASX-release 18 February 2009) issued its half-year earnings report (effective 31 December 2008). Key results include:

- Operating earnings for the six-month period to December 2008 were $36.48m or 5.2¢ per stapled security.
- 88% of operating earnings originated from recurring property and funds management income. Interest cover was 2.8x.
- The net after-tax statutory loss for the half-year period was $70.86m. The net loss was after non-cash items including a $49.03m devaluation of the Group's property portfolio and a $39.93m decrease in the fair value of interest rate derivatives.
- Total assets at December 2008 were $1.65b, $369.94m of which were liquid assets (cash and trade receivables).
- The CDPT property portfolio was devalued to $1.16b, representing a portfolio weighted-average capitalisation rate of 7.88%. 48% of the portfolio was independently revalued in the December 2008 quarter.
- The property portfolio has strong defensive characteristics, including a weighted average lease expiry of 5.4 years and an occupancy rate of 99.6%. Only 10.9% of portfolio leases were due to expire over the two-year period FY09-FY10. 51% of the leases are held by government authorities.
- The net asset position at December 2008 was $608m, with a net tangible asset position of $604m. This resulted in an NTA of $0.86 per stapled security.
- Net debt was $635m, the majority of which ($449.9m) is a loan syndicate held with Australian banks due for repayment in November 2011.
- The recent property devaluations have led to Group gearing increasing to 49% ('look-through' 51%) compared to an A-REIT sector average of 41%.

CMW has confirmed that it remains in compliance with all its debt covenants and will be able to fund all its capital commitments through the capital management initiatives announced.

CMW paid a 2.5¢ distribution per stapled security for the December 2008 Quarter (the payment was made to investors on 16 February 2009). CMW is forecasting a minimum 9¢ distribution per stapled-security for FY09, increasing to 10¢ if any transactional income is earned.

Thus Lonsec considers CMW to have the cash flow and balance sheet strength to meet the challenges that will be provided by the poorer economic and property market conditions in FY09-FY10.

4.2. Investment Style

Overview Investment Style

The Group relies on the following core business strengths:

- A domestic focus with no exposure to off-shore property markets;

- Defensive property portfolios with strong recurring cash flows and minimal short-term lease expiries;
- A strong retail direct property brand;
- A loyal, diversified retail and institutional investor base for its unlisted property funds;
- A well funded corporate structure without short-term debt expiry or the need to raise equity in the current market; and
- An experienced and stable executive team.

The geographic bias for the Manager is towards Australian capital cities with longer-term government or blue-chip tenants.

Cromwell Acquisition Process

The Manager has a five-step acquisition process that is employed to evaluate, approve and implement potential property acquisitions. The process is mapped out below:

- Step 1: All potential property acquisitions are reviewed in accordance with the Investment Policy of Cromwell, objective market criteria and prevailing market conditions. The acquisition is modeled to ensure that threshold IRR and yield targets can be met;
- Step 2: Potential acquisitions that meet minimum investment criteria are subject to initial technical, financial and legal due diligence. Due diligence models are revised in accordance with due diligence findings. If applicable, an initial conditional Heads of Agreement is negotiated with the potential vendor;
- Step 3: The Board appoints a formal Due Diligence Committee (includes a number of Cromwell Directors) and an Investment Committee (must include at least one non-executive Director) to steer the acquisition process. The Due Diligence Committee undertakes a range of technical, financial and legal due diligence investigations, utilising a range of internal and external experts in this process. Key findings are used to update the acquisition model.
- Step 4: The Due Diligence Committee commissions and reviews an external property valuation and secures a commitment from its financiers to provide debt financing for the acquisition. The Due Diligence Committee makes a recommendation to the Investment Committee.
- Step 5: If the Investment Committee is satisfied with the due diligence recommendation and the terms if the financiers, it may elect to proceed with the investment. Major transactions may also require full Board approval.

4.3. Board of Directors/Senior Executives

Board of Directors – Cromwell Property Group

Name	Position	Service C'well (Yrs) *	Commercial Experience (Yrs) *
Geoffrey H. Levy	Non-executive Chairman	1	25
Paul Weightman	CEO, Executive Director	10	25
David Usasz	Non-executive Director	2	31
Robert Pullar	Non-executive Director	6	23
Michelle McKellar	Non-Executive Director	2	25
Daryl Wilson	Finance Director	9	18
Richard Foster	Executive Director	10	40

(Source: Cromwell Group.)
(Note *: Effective 31 January 2009.)

Lonsec is satisfied that the Cromwell Board of Directors has the requisite commercial and property acumen and experience to steer the Cromwell Group through the current challenging operating environment. The Board has an average tenure of 5.9 years and has average commercial experience of 26.7 years (effective January 2009). Biographies of all existing Directors have been provided below.

Geoffrey H. Levy, AO Non-Executive Chairman

Mr. Levy is the former CEO and current Chairman of Investec Bank (Australia) Ltd and has previously held directorships with Mirvac, Rebel Sport, Freedom, Hoyts and Ten Network. He has 25-years commercial experience including a directorship with Mirvac, an ASX-200 listed commercial property trust. He is a Solicitor of the Supreme Court and holds Fellowships with the Financial Services Institute of Australasia (FINSIA) and the Australian Institute of Company Directors.

Paul Weightman, CEO & Executive Director

Mr. Weightman has held the position of Cromwell Group Executive Chairman (CEO) since 1998.
He is a solicitor with 25-years commercial experience in property development and investment, financial structuring, public listings, mergers and acquisitions, revenue matters and joint ventures. He holds degrees in both law and commerce.

David Usasz, Non-executive Director

Mr. Usasz was a partner with PricewaterhouseCoopers in a career spanning twenty years. He was mainly involved in providing merger and acquisition advice and accounting and financial consultancy (specialising in corporate re-organisations). He holds a Bachelor of Commerce and is a Fellow of the Institute of Chartered Accountants.

Robert Pullar, Non-executive Director

Mr. Pullar is a Director of the Brisbane-based property development company, Citimark Properties Pty Ltd. He was previously a partner with chartered accounting firm Douglas, Heck and Burrell (now known as Pitcher Partners). He specialised in property investment, taxation and corporate reorganisation. Mr. Pullar is a member of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors.

Michelle McKellar, Non-executive Director

Ms. McKellar has held a number of senior positions with Intro International Limited (now Jen Retail Properties) and CB Richard Ellis throughout Asia-Pacific. She is a Senior Member of the Property and Land Economy Institute.

Daryl Wilson, Finance Director

Mr. Wilson has been with the Cromwell Group for nine years in a variety of finance-related roles. He has led the development of the group's funds management capabilities and has primary responsibility for the finance and funds management functions. He holds a Bachelor of Commerce and a Diploma of Financial Planning and is a member of the Institute of Chartered Accountants of Australia.

Richard Foster, Executive Director

Mr. Foster is a licensed real estate agent with substantial experience in the property industry, specialising in large-scale property acquisition. He has also been closely involved with the acquisition and marketing of direct property investments valued in excess of $1.5b. He is a founding Director of CPSL.

CMW Senior Executive

Name	Position	Service C'well (Yrs) *
Paul Weightman	Chief Executive Officer	10
Daryl Wilson	Finance Director	9
Richard Foster	Executive Director (Acquisitions)	10
Pat Howard	Chief Operations Officer	1
Nicole Riethmuller	Company Secretary	0
David Gippel	Structured Finance and Treasury	7
Phil Cowling	Associate Director – Transactions	5
Brad Collins	National Facilities Manager	4
Michael Blake	Head of Sales	4
Melissa McLaughlin	Head of Investor Relations	5
Paul McDonnell	National Asset Manager	3

The Cromwell senior executive team has adequate experience across a range of key disciplines including property, funds management, mergers and acquisitions, treasury and compliance. The executive team is stable and experienced with an average tenure at Cromwell Group of 3.6 years and average commercial experience of 15.3 years (effective January 2009). Key Executive Directors Paul Weightman, Daryl Wilson and Richard Foster have all been with the Cromwell Group for at least nine years and have extensive property and commercial experience.

The total number of properties managed by CPSL is 35 (effective 31 December 2008), representing total funds under management (FUM) of $1.74b. The Cromwell Group currently employs 61 full-time property professionals (across all disciplines), representing a FUM per staff-member of $28.6m. It is the intention of CPSL to have a specific asset manager and financial analyst assigned to the Trust.

Lonsec is satisfied that CPSL has an experienced senior executive team capable of steering the Group through the challenging conditions faced across the Australian economy and property markets. The Group has sufficient staffing across all investment and property disciplines to ensure that the Trust is managed in accordance with investors' best interests. In particular, Lonsec notes that a dedicated property manager and financial analyst will be assigned to the Trust in accordance with industry best practice for a large unlisted property trust.

4.4. Trust Performance

Overall, **Cromwell Property Securities Ltd (CPSL)** has delivered sound total returns over a nine-year period across a wide range of single-asset and diversified property trusts when compared with the Mercer Unlisted Property Fund Index (MUPFI). The table below provides a summary of this performance history.

All nine of the CPSL trusts that were either amalgamated into the Cromwell Group in December 2006, or liquidated in June 2005, had out performed the MUPFI since inception, a solid investment performance.

However, Lonsec notes that the current CPSL flagship unlisted fund, the Cromwell Property Fund, has provided investors with a negative total return since inception of -0.35% p.a., lower than the MUPFI return of 10.53% p.a. over the same period. Thus CPF has significantly underperformed the MUPFI (-10.88% p.a.). This is due to CPF's NTA position as at 31 December 2008 being adversely impacted by the 'mark-to-market' fair value adjustment of the Fund's interest rate derivatives and capitalisation rate expansion in its underlying property portfolio.

The ASX-listed Cromwell Property Group has outperformed the ASX 200 Property Trust Accumulation Index as at 31 December 2008 (by 18.09% p.a.) by virtue of its stronger weighting to recurring property investment and funds management income and defensive property portfolio (see Section 4.1 'Responsible Entity'.)

Cromwell Property Group & Cromwell Property Fund

Listed Property Trust	Inception	Period Ending	Income Returns (p.a.)	Capital Returns (p.a.)	Total Returns (p.a.)	ASX 200 Property Trust Acc Index (p.a.)	Relative Performance
Cromwell Property Group (ASX-code CMW)	Jan-07	Dec-08	8.00%	-27.77%	-19.77%	-37.86%	18.09%
Trust/Fund	**Inception**	**Period Ending**	**Income Returns (p.a.)**	**Capital Returns (p.a.)**	**Total Returns (p.a.)**	**Mercer Unlisted Property Index (p.a.)**	**Relative Performance**
Current Unlisted Property Trusts:							
Cromwell Property Fund #	Jun-06	Dec-08	8.00%	-8.35%	-0.35%	10.53%	-10.88%

(Note #: Fund is currently closed to applications and redemptions.)

Cromwell Property Securities Limited – Stapled and Liquidated Trust

Trust	Trust Inception Date	Initial NAB (per unit)	Closing NAB (per unit)	Total returns (p.a.)	Mercer Unlisted Property Index (p.a.)	Relative Performance
Amalgamated with the Cromwell Group (Effective December 2006):						
Diversified Property Trust	Feb-03	$0.88	$1.21	22.4%	13.7%	8.6%
Goulburn Street Planned Investments	May-02	$1.02	$1.39	17.8%	13.1%	4.7%
Northbourne Planned Investment	Nov-01	$0.95	$1.30	17.3%	12.7%	4.6%
TGA Planned Investment	Nov-01	$0.92	$1.44	66.9%	12.7%	54.2%
Mary Street Planned Investment	Jun-01	$0.95	$2.10	29.5%	12.3%	17.2%
Terrace Office Planned Investment	Jun-99	$0.88	$1.82	22.6%	11.7%	10.9%
Planned Investment No.3	Sep-00	$0.90	$1.51	19.4%	12.0%	7.4%
Liquidated Closed-end Trust (Effective June 2005):						
Riverfront Planned Investment	Dec-99	$0.88	$1.05	11.5%	8.1%	3.4%
Planned Investment No. 4	Nov-00	$0.88	$1.38	20.8%	7.8%	13.0%

5. Properties/Portfolio

5.1. Portfolio Overview

Portfolio	Statistic (Upon Project Completion)
Property (Riverpark Builidng)	1
NLA (m^2)	30,904
P'folio Yield (Market)	7.6%
WALE (yrs)	14.1
Vacancy Rate #	0.0%
% P'folio - Type (NLA)	Office 93%, Retail 7%
% P'folio - State (NLA)	Queensland 100%

(Note #: Ground floor retail vacancies are subject to a 5-year rental lease with the Developer.)

Lonsec notes the following with regard to the Trust's direct property portfolio:

- The portfolio will have an excellent WALE of 14.1 years upon project completion (expected 30 June 2010) due to the long lease term of the Energex lease (expires 2025); and
- The vacancy rate upon PC is expected to be 0%, with 93% of NLA pre-committed to the Energex lease and the remaining 7% of NLA (retail tenancies) subject to a lease of five-years from the Developer until leased to a reputable retail tenant.

Lonsec notes that the Trust is a single-asset trust and as such the rental revenue stream will not be diversified by geographical location or market sector. However Lonsec considers that the length of tenure and the strong leasing covenants of the Energex lease off-sets the risk to revenue posed by holding an undiversified property portfolio.

Lonsec has provided an in-depth tenancy analysis at Section 5.5 'Key Tenant Analysis'.

5.2. Riverpark Building

An investment the Trust will provide investors with exposure to the Riverpark Building, a seven-storey, 30,904 m^2 office building that will house the headquarters of Energex Limited (one of Australia's largest electricity suppliers).

The building design has been awarded a Six Star Green Star Certified Rating under the 'Green Building Council of Australia's (GBCA) Green Star – Office Design v2' rating tool, setting a new benchmark in environmentally sustainable development and workplace design in accordance with Energex's long-term requirements.

The building consists of two parallel 20 metre wide floor plates located on the northern and western aspect of the street edges to produce views back to the park, Brisbane River and the Brisbane CBD. These floor plates are elevated and separated by an atrium with a glazed roof and linked by multiple walkways. The plates are configured to produce a single central row of columns to accommodate spacious open plan workspaces.

The property is located in the six-hectare master planned Mirvac development titled 'Newstead Riverpark' which is situated on the old Gasworks sites on the Brisbane River. Newstead has been at the centre of Brisbane City Council's Urban Renewal Taskforce and has experienced significant development in recent years.

The property is located on the corner of Breakfast Creek Road and Waterloo Street. Breakfast Creek Road carries a high volume of traffic to and from the Brisbane CBD.

The property is well positioned within 2km of the Brisbane CBD. Public transport services are in close proximity with regular bus services operating along Breakfast Creek Road, the cross-river ferry operating from nearby Commercial Road Newstead, and the Fortitude Valley and Bowen Hills train stations being located within a 650m-1300m range.

Investor Note 'Green Star' Rating

'Green Star' is a comprehensive voluntary national environment rating scheme sponsored by the Green Building Council of Australia. The scheme evaluates the environmental design and achievements of a particular building. The 'Green Star' ratings system was developed for the property industry in order to:

- Establish a common language;
- Set a standard measurement for green buildings;
- Promote integrated, whole-building design;
- Recognise environmental leadership;
- Identify building life-cycle impacts; and
- Raise awareness of green building benefits.

Green Star covers a number of categories that assess the environmental impact that is a direct consequence of a projects site selection, design, construction and maintenance

The following 'Green Star' ratings are available:

- 4 Star Green Star Certified Rating that signifies 'Best Practice';
- 5 Star Green Star Certified Rating that signifies 'Australian Excellence'; and
- 6 Star Green Star Certified Rating that signifies 'World Leadership'

Green Star certification requires a formal assessment process upon building design and completion.

Further details can be found by visiting the Green Building Council of Australia's website (www.gbca.org.au).

Source: Green Building Council of Australia.

5.3. Land and Development Agreement

Land Purchase Agreement

The Trust has exercised an option to enter into a Land Purchase Agreement with FKP Commercial Developments Pty Ltd (FCD or 'the Developer'), a subsidiary of the ASX-listed FKP Group.

The agreement provides for a land price of $15m to be paid upon settlement of the acquisition on the 31 March 2009. Settlement can only occur if the following conditions have been met:

- Equity of $91m has been raised via the issue of Class A and B units;
- Debt facilities have been finalised on terms acceptable to CPSL;
- The Energex 'Agreement for Lease' (AFL) has been assigned to the Trust; and
- Consent has been received from the Green Building Council of Australia for the assignment and licensing of the Green Star Agreement to the Trust.

Development Agreement

Upon execution of the Land Development Agreement, the Development Agreement between the Trust and FCD automatically commences and the Developer will become entitled to an initial development management fee of $10m.

By agreeing to be party to the Development Agreement, the Developer agrees to carry out the work program required by the Energex AFL. The Developer is responsible for all development costs incurred in constructing the Riverpark Building in accordance with the specifications of the Energex AFL. The Developer has engaged FKP Constructions Pty Ltd as the builder of the project.

The maximum payment the Trust is required to pay under the Development Agreement is $158m. The payment will decrease by a factor of 12.9 if the expected net rental for the Building is less than $13.658m upon the completion of the Building i.e. if a theoretical short-fall in rental of $0.1m is recorded, then the payment will decrease by $0.1m * 12.9 = $1.29m.

The Developer can earn a development fee (on top of the initial management fee) to be paid progressively through the development period. Under no circumstances can the development fee, management fee and funding allowance exceed the maximum payment of $158m. Note that the funding allowance is calculated at the rate of 10% p.a. on all payments made by the Trust for the acquisition of the land and development project (including all development fees).

The Developer can make monthly claims to be reimbursed for all development costs and be paid instalments of its development management fee provided that all such claims are supported by certification from an independent licensed Quantity Surveyor (QS). The QS will provide confirmation of:

- The building works being completed in accordance with the Developer's contractual obligation;
- The development costs of the work completed in the period; and
- The expected costs required to complete the project.

The Trust must make all payments within ten days of receiving the QS certification.

All development obligations are guaranteed by FKP Limited. In addition to this guarantee, the Developer is required to provide a $20m Bank Guarantee upon the commencement of the Development Agreement. The amount of the guarantee will reduce progressively over the life of the project to $3m upon the completion of the Building. The remaining $3m will be retained until expiry of the defects liability period (12 months after the completion date) under the Construction Contract.

The Trust is required to provide a Bank Guarantee for $50m to the Developer to support its obligations to meet the maximum payment. The guarantee reduces to $20m upon the payment of the first development cost claim and then progressively after that over the life of the construction project.

Lonsec notes that the Manager has structured the Land Purchase and Development Agreements with the Developer to ensure that investors in the Trust do not take on any development risk. However, due to the reliance by the Trust on the Developer to complete the construction project, the strategy does entail a higher counterparty risk compared with a passive property holding. The Manager has attempted to protect investor returns from this increased level of risk by entering into robust bank and rental guarantees with FCD.

Cromwell Project Management Energex Building

Lonsec notes that Philip Cowling, Associate Director – Transactions, will represent Cromwell at the Project Control Group (PCG) meetings held during the construction of the Riverpark Building. The PCG will also be attended by representatives of Energex and FKP and their project managers and consultants (as required).

The Energex AFL sets out the progress reporting process that will need to be adhered to for each PCG meeting.

Construction Contract

The Developer has entered into a Construction Contract with a related-party entity, FKP Construction Pty Ltd ('the Builder'). The key terms of the contract are:

- The Builder agrees to design and build the Riverpark Building in accordance with the Energex AFL; and
- The construction cost will be a fixed price of $113m.

Practical Completion of the Building is expected to be 30 June 2010. Energex Limited is entitled to receive $2.4m in compensation, to be funded by the Developer, if the Energex lease has not commenced by 12 September 2010.

The Builder is obligated to obtain extensive warranties from service providers and equipment suppliers for all capital expenditure. The interests of the Trust will be protected in the case of any defects by a $3m defects guarantee (funded by the Developer) that will remain in effect for the duration of the defects liability period.

The Developer has also provided Energex with a $1m Bank Guarantee to cover any defects under the terms of the Energex AFL.

Tripartite Agreement

The Trust will be signatory to a Tripartite Agreement with the Builder and the Developer which stipulates that the Construction Contract cannot be terminated without the Trust having the opportunity to rectify any default. The Tripartite Agreement will commence upon the completion of the Land Purchase Agreement and will have the following key terms:

- The Builder agrees that it cannot terminate the Construction Contract without giving the Trust written notice and an opportunity to remedy any breaches;
- If the Development Agreement is terminated by the Trust then the Trust may give the Builder a notice requiring novation of the Construction Contract to the Trust (i.e. step-in rights); and
- The Builder agrees to obtain provisions in all sub-contracts enabling novation of such sub-contracts to a replacement builder nominated by the Trust.

Lonsec notes that the Tripartite Agreement allows the Trust to ensure that if the Developer or the Builder is unable to meet their commercial obligations for any reason, then the Trust has step-in rights to ensure that another builder can be appointed to complete the project. Lonsec considers that this clause partly mitigates the counter-party risk of the Trust being solely reliant on FKP to complete the project.

FKP Property Group Limited

The FKP Queensland Construction Division is recognised within the industry as one of Australia's most prominent and successful construction operators. FKP Construction has a strong track-record of success and relevant experience in residential, industrial, commercial, retail and retirement developments.

FKP Construction is a division of the FKP Property Group (FPG or the Group), an ASX-listed entity that is a leading Australian diversified property group and is Australia's largest owner and operator of retirement villages. The Group also possesses a large development pipeline with an end value in excess of $3b (circa June 2008).

The Group has disclosed that its major shareholders include Lend Lease, Stockland and Mulpha, three prominent Australian property market participants. Further FPG has recently announced to the ASX (13 February 2009) that Mr. Seng Huang Lee, the executive Chairman of Mulpha Australia Ltd and Mulpha International Berhad, has been elected as the Chairman of the Group (replacing the incumbent Ben MacDonald). Lonsec considers this to be a strong vote of confidence in the Group by a key shareholder.

Lonsec has reviewed the FPG Half-Year Financial Report as at 31 December 2008 and the accompanying results presentation (ASX-release 26 February 2009). We note that the Group has $705.3m worth of debt classified as a Current Liability, in excess of Current Assets of $444.7m. The Group's reported NTA per share is $3.65.

The overall Group gearing is 41%, in-line with the A-REIT sector average. FPG has confirmed that it is not in breach of any debt covenants even though its financing structure is described as being 'complex'.

The Group has had some recent success (in December 2008) in refinancing loans secured against two completed developments (TAC Building and Peregrine Springs Shopping Centre).

The Group has recorded an operating profit (after tax) of $35.2m for the six-month period ended December 2008. This compares to a statutory loss (after AIFRS adjustments) of $158.4m.

Thus Lonsec notes that based on the half-yearly accounts (December 2008) FPG is facing some strong headwinds in refinancing the Group's shorter-term debt in the face of the on-going dislocation in credit markets. However the Group still remains profitable at an operational level and has had some success in refinancing its loan book in the last six-months. The Group continues to have a strong shareholder support from its key shareholders Mulpha and Stockland.

5.4. Cromwell Experienced Building Construction Project Management

The Cromwell property acquisitions team has specific experience in completing risk evaluations and due diligence programs on a variety of property purchase and development transactions, as well as project managing such more complicated delivery and construction programmes to project completion.

Cromwell's project management, operations and property management experience provides the Trust with a significant advantage as it will ensure greater control of construction and development cost risk. It should also ensure the smooth handover of the tenancies to Energex.

Two previous construction projects of a similar scale that the Cromwell Group successfully project managed to a satisfactory tenant handover include:

- 700 Collins Street, Melbourne (Vic);and
- Synergy Building, Kelvin Grove, Brisbane (Qld).

5.5. Key Tenant Analysis

Energex Lease (Core Lease)

Energex Lease	Key Terms
Lessee	Energex Limited
Tenancy	Target NLA 28,614 m^2 (subject to variations). Occupies part of ground floor plus levels 1-7.
Lease Commencement	Upon Practical Completion (expected June 2010)
Term	15 years
Option	5+5+2
Commencement Rental	$407/$m^2$
Annual Review	Greater of CPI or 3.75%.
Market Review	10th year - minimum increase of 5% and maximum of 7%.
Outgoings	Tenants to pay in proportion to NLA (excludes land tax).
Car Parking	252 bays at commencement rental of $235 per park per month. Review terms are as per the core rental.
Signing Rights	Energex has naming and signage rights to the building at a commencement rental of $50k p.a. Review terms are as per the core rental.

Lonsec is impressed with the strength of the lease covenants built in to the Energex lease. In particular the fifteen-year lease term (well in excess of the term of the Trust) and the minimum rental review of 3.75% p.a. means that investors, in effect, have rights to an inflation-adjusted annuity covering 93% of the Building's NLA. We do note, however, that the lease does not allow for a market review until the 10th year of the lease, curtailing the Trust's ability to deliver capital growth through rental reversions but also limiting any downside risk in the short-to-medium term through falls in market rentals.

Lonsec notes that Energex Limited, a Queensland State Government-owned utilities provider, is an AA + rated entity (credit rating issued by Fitch Ratings in October 2008).

Energex manages energy distribution networks and delivers energy products, services and expertise throughout eastern Australia. Based in South East Queensland, Energex has an 80-year corporate history. Today Energex distributes electricity to more than 1.3m residential, industrial and commercial customers. It has also developed a strong reputation for its network asset management capabilities including specialised engineering services, metering applications and energy solutions.

At the core of the Energex business are high performing distribution assets worth more than $7b, the expertise of more than 3,500 employees, and a drive to provide customers with energy solutions that are economically, socially and environmentally acceptable.

Lonsec notes that Energex may only terminate the Energex 'Agreement for Lease' (AFL) if the Building is not practically completed by 30 June 2013, well in excess of the current estimate for practical completion (30 June 2010).

Retail Accommodation

The remaining Building NLA (approximately 2,900 m^2) predominantly consists of retail accommodation, including a café, retail shop and a retail showroom.

Lonsec notes that the Developer of the building, FKP Developments Pty Ltd, has entered into a five-year lease over all retail accommodation. The lease will be invoked if upon practical completion if any retail space has not been let in accordance with contracted minimum rental rates and leasing criteria. The targeted rental rates are as follows:

- The retail showroom tenancy (NLA of 1,458 m^2) must be let for \$550/m^2;
- The retail shop tenancy (NLA of 775 m^2) must be let for \$475/m^2; and
- The retail cafe tenancy (NLA of 57 m^2) must be let for \$1200/m^2.

As well as the targeted rents, any leases entered into by the Developer must meet the following leasing terms;

- Rent reviews of a minimum 3.75% p.a.;
- Lease terms of at least five years in duration;
- Bank guarantees of a minimum of three months rental;
- Incentives of a maximum of 15% of gross rental payable over the initial lease term;
- Reputable and solvent tenants; and
- Net leases.

The rental guarantee is in the form of a five-year lease and it is supported by a \$5m Bank Guarantee provided by the Developer which will be progressively replaced as new tenants are secured.

Other

Crown Castle Australia Pty Ltd (Crown) has entered into an 'Agreement for Lease' (AFL) for certain parts of the roof of the building for a communications facility.

The initial term of the AFL is for ten-years with a commencing rental of not less than \$21,605 p.a. and annual rent reviews at CPI.

5.6. Property Valuation

Where practicable, the Riverpark Building will be independently valued each year. All independent valuations will be carried out by an appropriately qualified valuer. The carrying value of the building will also be closely monitored by the Director's and senior executives of Cromwell.

The property has been independently valued on an 'As is Complete' basis at \$173m (circa January 2009). The independent valuer, LandMark White (the Valuer), has adopted a conservative capitalisation rate of 7.62% in completing the valuation of the property.

Lonsec has reviewed the valuation report and notes that the Valuer has taken into consideration sales evidence, current market conditions and the characteristics of the subject property (location, asset quality, cash flow profile) to determine an appropriate market capitalisation rate of 7.62%, being the mid-point of a 7.50% to 7.75% range. The following has been considered in making the assessment:

Valuation Criteria	Statistic
Sales Evidence:	
- Transactions	Seven
- Location	Brisbane CBD and 'near city'
- Date Range	May 2008 to December 2008
- Sales Price	\$15m to \$122m
- Building Age #	1985-2007
- Yield Range	7.25% to 9.73%
- IRR Range	8.70% to 9.92%
Asset Profile:	
- Quality	Subject building considered vastly superior to the older building's in the sales evidence sample.
- Cash flow	Strong profile due to the long-term WALE and Energex lease
- Rental	Energex AFL rental adopted as market rate.

(Note #: Date of building construction or major refurbishment.)

Thus the Valuer considers that risk is now more strongly reflected in market yields and that there will be a greater emphasis on property fundamentals (tenancy profile, lease covenants, location, and asset quality) in 2009 and beyond.

Lonsec notes that the average prime yield across the 'near city' market is now 7.85%. Thus, given the sales evidence presented by the Valuer and the quality of the premium-grade Riverpark Building, we are comfortable in adopting an initial market yield of 7.62%. A detailed analysis of the Brisbane 'near city' office market has been provided at section 6 'Market Analysis'.

6. Market Analysis

6.1. Brisbane 'Near City' Office Market

Overview – Brisbane Commercial Office Market

Brisbane commercial office markets (CBD and 'near city') have been adversely affected by the continued dislocation in global credit and property markets. This has been demarcated by the following:

- Transactional activity has slowed significantly in CY08, with sales in the Brisbane 'near city' market falling to $91.3m (over ten transactions), down from $430m (over fifteen transactions) in CY07;
- Purchasers have been 'bottom of the cycle' private investors with access to cash who have been attracted back to property markets by the higher property yields achievable;
- Institutions and A-REIT's have been net sellers as they seek to refinance their balance sheets in the wake of the 'credit crunch';
- Rental rates have fallen by approximately 4% in the December 2008 quarter in response a slow down in occupier markets; and
- The sub-leasing market has emerged as a competitor to primary and secondary rental markets as both government and private employers prepare for a significant decrease in business activity and GDP over the short-to-medium term.

The outlook for the Brisbane occupier market is thus uncertain with further softness expected due to expected rise in state unemployment to 6.8% in 2010 (7.35% nationally). The expected rise in unemployment is due the worsening economic conditions and the unprecedented fall in commodity prices experienced in the latter stages of 2008 (especially thermal and coking coal prices).

The long-term fundamentals for the Queensland economy remain sound and are driven by output growth above the national average and solid population growth.

Investors should bear in mind that in the period leading up to CY08, the Brisbane office market (CBD and 'near city') enjoyed buoyant conditions with positive net absorption recorded in the majority of market segments. Further CBD vacancy rates fell to as low as 0.2%, levels of vacancy that had not been seen for 15 years. These low vacancy rates led to a sustained increase in rental growth.

These strong fundamentals had led to a period of strong yield compression in the prime and the secondary office markets, a position which is now being reversed.

Brisbane 'near-city'

Office Market Indicators – January 2009

Market Indicator	CY07	CY08
Vacancy Rate	2.02%	5.38%
Annual Net Absorption (m^2)	42,749	110,432
Annual New Supply (m^2)	37,162	146,537
Avg Gross Face Rental	$496	$500
Avg Rental Growth	16.76%	0.85%
Avg Prime Yield	6.88%	7.86%

(Source: Property Council of Australia, LandMark White Research)

Indicators by Building Grade – January 2009

Office Grade	Vacancy Jan'09 (%)	Net Absorption 12 months to Jan '09 (m2)
A	3.2	114,683
B	8.3	-1,491
C	4.1	-4,957
D	3.6	2,197
Total	**5.4**	**110,432**

(Source: Property Council of Australia)

The Brisbane 'near-city' office market has experienced an increase in vacancy rates from 2% in January 2008 to 5.4% in January 2009. This is largely the result of record supply of 146,537 m^2 being added to this market in a period where leasing markets have softened due to an increase in sub-leasing space.

Net absorption has been a strong 110,432 m^2 over the same period, centred on the A-grade office market. The 'near-city' market will continue to face a supply challenge over the next 24-months as a total of 144,420 m^2 is due to enter the market, only 33% of which is pre-committed.

The impact of the recent turmoil in credit markets on property valuations is now being felt across secondary office stock in the 'near-city' sector. The issue previously faced by valuers had been a lack of market evidence. However recent sales evidence has provided confirmation of yields softening, with prime commercial yields increasing by 50-100 basis points and secondary stock increasing by 100-200 basis points. Lonsec notes that softening leasing markets provide further potential downside for office valuations due to the forecast for negative rental growth in the face of burgeoning sub-leasing space and the likelihood of landlords needing to increase lease incentives to attract blue-chip tenants.

Lonsec notes that the average prime yield across the 'near city' market is now 7.85%, a premium of 460 basis points to cash rate (RBA announcement February 2009). This spread is thus at historical levels and this provides Lonsec with greater comfort that yield expansion in the A-grade office market is nearer to cyclical highs as risk becomes fully priced into commercial office yields.

Going forward, office yields will be led by the fundamentals of individual assets such as tenancy profile, leasing covenants, demographic trends and cash flow certainty. Lonsec considers that energy-efficient buildings with Green Star ratings will attract a premium as office markets recover due to strong demand from institutional investors.

7. Information Used in the Review Process

This report has been prepared by Lonsec Property Research (a division of Lonsec Limited) for the Directors of Cromwell Property Securities Limited, the Responsible Entity. Lonsec has relied on information supplied by and obtained from discussions with employees of Cromwell Property Securities Limited.

We have reviewed or relied upon the following documents in the course of our research process:

1. Cromwell Property Securities Ltd, Cromwell Riverpark Trust Product Disclosure Statement (February 2009);
2. Cromwell Properties Group Limited, Various ASX-releases (CY2008 -2009);
3. FKP Limited, Various ASX-releases (CY2008 -2009);
4. LandMark White; Valuation Report Energex Building (28 January 2009);
5. Minter Ellison; Constitution Cromwell Riverpark Trust
6. Property Council of Australia, Office Market Report (January 2009); and
7. DTZ, Office Market Update – Brisbane (December 2008).

Date Prepared: March 2009
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