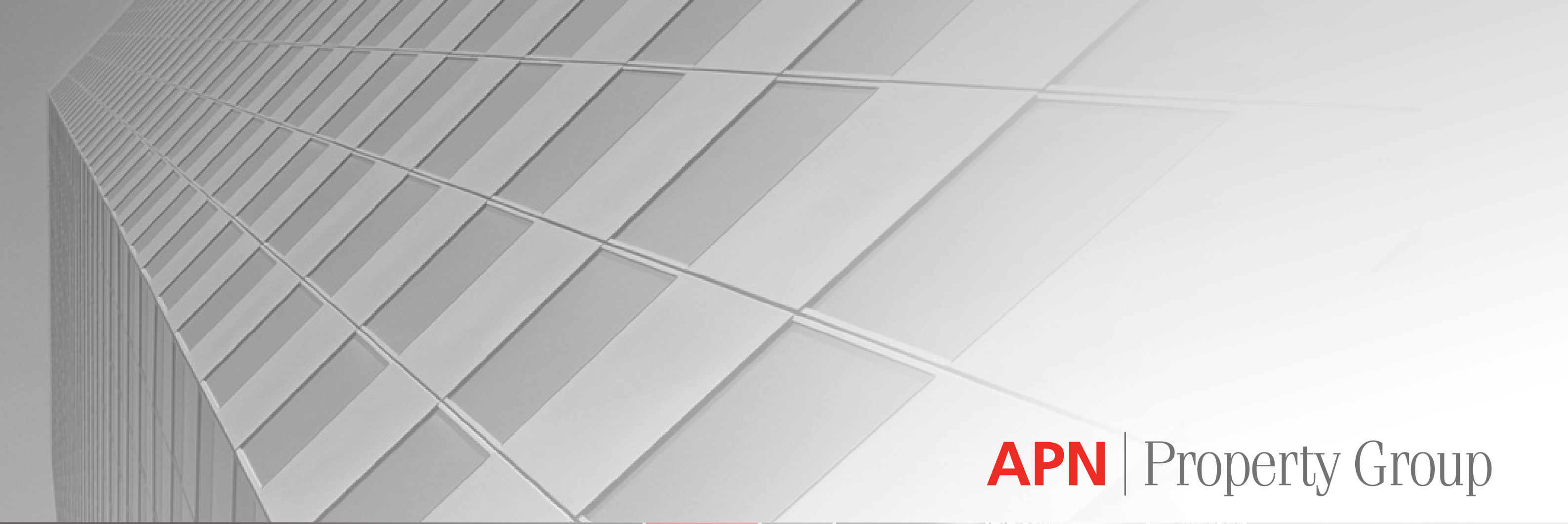
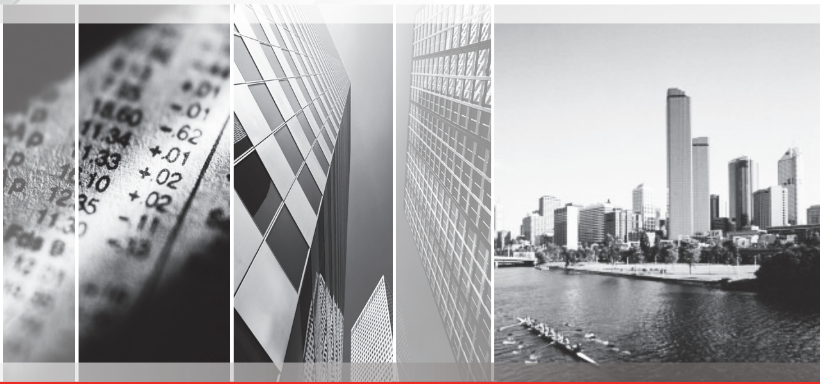


APN | Property Group



News and Views

November 2008

APN Property Group quarterly update - holding firm in turbulent times

A message from our new Managing Director, David Blight

2008 Financial Year results at a glance

Net profit after tax of $10.1 million

Earnings per share of 7.74 cents

Full year dividend 7.50 cents per share

Funds under management $3.9 billion at June 2008

Strong balance sheet
- Available cash $12.6 million
- Negligible debt $0.4 million

Postitioned for growth

I am delighted to have this opportunity to lead the APN Property Group and to work with this highly regarded and experienced team. I continue to be impressed by the team's passion, commitment and energy particularly in these challenging times.

As everyone is aware, the global economy is undergoing a major deleveraging caused in part by a crisis in confidence in the world's banking sector and subsequent credit freeze. In short, this has and will continue to lead to asset re-pricing and has delivered a particularly painful blow to the real estate funds management sector. However, despite this, the APN Property Group remains strong, with a sound balance sheet, minimal debt and significant cash reserves.

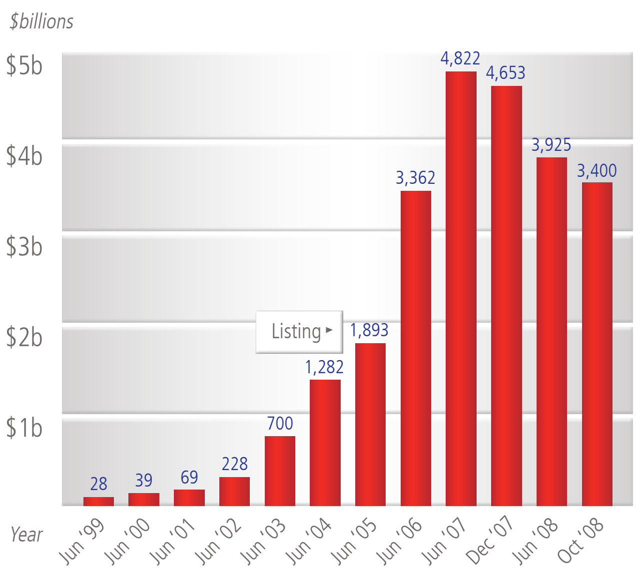
Our immediate priority is to ensure the existing funds within the stable are in the best shape possible for the new economic environment and the team has worked very hard to ensure this is the case. The world however, continues to change and we too must adapt to the new market realities in front of us. We are very mindful of the issues facing investors in funds that have suspended redemptions or trading at significant discounts and we remain very focussed on delivering sustainable solutions.

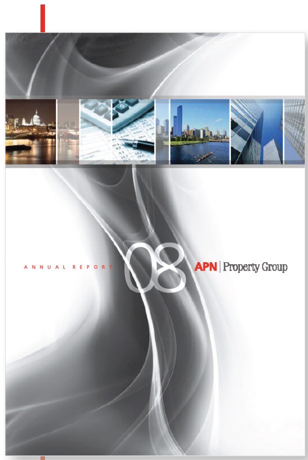
We have many opportunities ahead of us to grow the business. The quality of our people and our continuing focus on the fundamentals of investment performance and client service provides a strong foundation for the business to take advantage of emerging opportunities. Very often, the most difficult and challenging of times will present the most compelling investment opportunities.

Thank you for your continued interest in APN Property Group and I look forward to providing you with regular updates on our progress. I'd welcome your comments or questions, so feel free to send me an email at dblight@apngroup.com.au

David Blight
Managing Director, APN Property Group

Growth in Funds Under Management





You can view the 2008 Annual Report by visiting our website at www.apngroup.com.au

From four cylinder reliability to supercharged V8

HOWARD BRENCHLEY looks back over the past 10 years to understand the evolution of listed property.

At the end of August 1998, the ASX Property Trust Index, as it was then described, was sitting at 1,273 points. By the end of August 2008, 10 years later the same index (but under a different name) was at 1,431 points.

It would be tempting to conclude that nothing much had happened in property trusts in the intervening 10 years. Yet in reality the sector experienced a dramatic rags-to-riches-to-rags story arc that has left investors perplexed, and hurting.

Back in 1998, as our investment house was making its first investments, Australian listed property had recovered from one of the worst property experiences since the Great Depression; in the early 90s property values in Australia and around the world had plummeted.

Struck by the twin evils of overbuilding and a declining demand as major recession started to bite, office tower vacancies averaged over 30 per cent nationally and shopping centres were struck by declining turnovers and retailer bankruptcies.

Listed property arose from the great investment phenomenon of the late 80s, the unlisted property trust, which had been struck down by increasing levels of redemption in an asset class where liquidity was restricted by the nature of the assets. There were only three options: sell the assets at depressed prices; lock the trusts down for a number of years; or list them on the stock exchange.

In 1998, the listed property trust (LPT) sector still resonated with the last of those strategies. Trusts from the Armstrong Jones stable, BT, Advance and Westpac were still listed, although within a few short years would disappear completely as they were taken over, merged or privatised.

But we were in simpler times. For example, the only stapled trust was Stockland, which had been a stapled entity for almost a decade. The remainder were purely property-owning vehicles and externally managed. What a difference from today, where the bulk of market capitalisation comprises internally-managed, stapled structures with diverse non-property owning interests, such as land subdivision, funds management, development and construction.

So what was the catalyst for change? Something seemingly remote from property: the tech wreck.

In the late 90s and very early in 2000, stock markets ignored almost all asset classes except for technology stocks. We had discovered the Internet and we were enthusiastic about its prospects as a new business medium.

Those who dived in lost considerable amounts, but out of the ashes of the tech market crash rose a more conservative attitude from those who had been burnt, or nearly burnt.

Predictable cash flows became important, backed by hard assets, and commercial property delivers that in spades.

So the property boom began, and it ran continuously with only minor hiccups until December 2007.

The problem with extended booms is that a lot of bad practices become institutionalised. And in a boom investor expectations continually increase and management has to put in place strategies to meet those expectations or be taken over, or worse still, ignored.

With interest rates at their lowest levels for years and banks keen to lend, there was an immediate avenue for delivering enhanced earnings growth; borrowing to buy assets that were yielding more than the cost of debt. Gearing levels soon rose from an average of less than 20 per cent of gross assets to an average of over 40 per cent.

Trusts that couldn't enhance their distribution growth became targets for those who could. In turn, to protect their status, externally managed trusts stapled in order to protect themselves from attack and be able to access non-rental earnings to boost earnings growth.

And when we started to run out of Australian property assets that could be positively leveraged, we moved to overseas jurisdictions to appease our ever increasing appetite for property. By late 2007, overseas property represented around 40 per cent of all A-REIT (Australian real estate investment trust) assets.

The success and performance of A-REITs during the post-tech wreck years then attracted a new form of investor. Previously the domain of the private investor, either directly or through property securities funds, we saw new players take over as the dominant price drivers. Overseas property securities funds started to take major positions, as well as hedge funds and arbitragers which had never previously taken any interest in a previously stable and low risk sector.

A-REIT volatility increased away from its traditional defensive characteristics to volatility levels that were greater than the overall market.

This volatility by the end of 2006 had started to create some exaggerated market movements, giving the A-REIT market the look of a turbo-charged v8 fish-tailing along a narrow road.

In retrospect, there were all the indications of a nasty crash.

The first signs of real trouble came on December 17, 2007, when Centro revealed (after a three-day trading halt) that it had been unable to renegotiate a short-term debt rollover with its bankers. Centro prices tumbled and the A-REIT sector dropped 11 per cent in a day.

Since then, A-REIT prices have returned to levels of a decade ago. In addition, investors are now questioning the intrusion in the past few years of higher gearing, non-rental income and overseas investment.

The mood is now shifting back towards Australian-domiciled rental focused trusts.

What does this shift mean for investors? Hopefully, a renewed focus on property providing predictable long-term cash flow rather than a short-term punt will return the listed sector to more sustainable levels next decade. The lessons learnt from the previous 10 years should ring alarm bells if we find ourselves in boom times again.

Howard Brenchley is founder and chief investment officer of APN Funds Management.

16 - MONEY MANAGEMENT September 18, 2008 www.moneymanagement.com.au

A 10 year retrospective of listed property

Howard Brenchley, Chief Investment Officer, APN Funds Management takes us on a journey of the highs and lows of commercial property through the last decade to understand the evolution of the AREIT sector.

APN Funds Management scoops 3 industry awards during 2008

APN Funds Management has received three major industry awards for 2008 which is a welcome endorsement of our income focus and concentration on strong property fundamentals during a tough time.

Our three most recent wins include:

- Property Investment Research (PIR) Property Securities Fund Manager of the Year Award 2008
- *AFR Smart Investor* Blue Ribbon Award 2008 - Australian Listed Property
- Morningstar Fund Manager of the Year 2007 - Listed Property

PIR The Authority in Property Funds Research & Ratings

FINANCIAL REVIEW smartinvestor BLUE RIBBON AWARDS 2008 WINNER

MORNINGSTAR 2007 Fund Manager of the Year Listed Property Australia

New appointments

APN Funds Management welcomes Andrew Smith to the property securities team. Andrew was previously Executive Director of Real Estate at Goldman Sachs JB Were where he played a key role in building and managing multi award winning real estate portfolios and was responsible for real estate security research. Andrew will be directly responsible for the APN International Property for Income Fund and also cover domestic AREITs.

We've also recently expanded our sales team with the recruit of Doug Muddle who brings with him in excess of 20 years financial services and property experience. Doug will be responsible for managing adviser relationships and key accounts in Victoria, South Australia, Tasmania and Western Australia.

We are extremely pleased to have attracted such talented professionals to our business. This follows APN Property Group's recent recruiting coup with former global head of ING Real Estate, David Blight appointed as our new Managing Director. These appointments highlight the Group's commitment to ensuring only the most highly credentialed people join our ranks in order to continue building a strong brand and ensure our business performs to its full potential.

APN Funds Management - temporary fund closures

The unprecedented wave of recent economic events has led to major declines in the value of the AREIT market and the surge in redemptions in the wake of the introduction of the Federal Government's bank deposit guarantee has resulted in liquidity issues reaching unacceptable levels for our property securities funds.

To protect the interests of investors, applications and redemptions for units in the following funds have been temporarily suspended:

- APN Property for Income Fund
- APN Property for Income Fund No. 2
- APN International Property for Income Fund
- APN Diversified Property Fund
- APN Direct Property Fund

Importantly, income distributions will continue to be paid and APN Funds Management continues to actively manage the funds to maximise income and total returns. We expect to at least provide for proportional redemption opportunities to investors in the APN Diversified Property Fund and APN Direct Property Fund over the next six to twelve months and a unitholder meeting is planned to take place in the first quarter of 2009 to determine liquidity mechanisms for investors of the APN Property for Income funds.

A new Capitol for South Yarra

Plans have been unveiled to create a prestigious mixed use retail, residential and office development as a landmark gateway located on the north west corner of Chapel Street and Toorak Road, South Yarra, Victoria.

The development is being undertaken by The Capitol (Vic) Pty Ltd and is 50% controlled by APN Property Group's Development Fund Number 1 and 50% by interests associated with the Palan and Tertini families.

"The Capitol, South Yarra" aims to deliver the ultimate live, work and play destination comprising:

- 4,700m^2 net lettable area street based retail
- A 6-level A-Grade commercial office building oriented east west
- A 38-level luxury residential apartment building with gymnasium, lap pool, lounge areas and podium level garden.

A planning permit application was submitted to the city of Stonnington on 3 July 2008.


rooftop Newsletter July 2008 APN Funds Management

10 APN Funds Management is turning YEARS OLD!

8 rules and reasons for investing in property securities

APN | Funds Management

Subscribe to '*Rooftop*' - our half yearly investor newsletter and monthly updates

Keeping investors, advisers and key business partners abreast of the rapidly changing landscape in the AREIT sector as well as product specific updates is more relevant than ever.

Click **here** to view a copy of the July 2008 Rooftop investor newsletter.
Click **here** to view a copy of the September 2008 adviser e-newsletter.

If you would like to receive an electronic copy of these regular publications, simply click **here** to subscribe.

Share registry

To obtain details on your APN Property Group share holdings or to make changes to your personal details including change of address and tax file numbers, please contact our share registry:

Link Market Services
Locked Bag A14
Sydney South, NSW 1235
Telephone: 1300 554 474

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About APN Property Group

The APN Property Group Limited is a financial services company which is listed on the Australian Stock Exchange (code APD) and specialises in property funds management via the APN Funds Management (APN FM) business. APN FM currently manages 16 property funds, including: flagship property securities funds , two wholesale property development funds and the listed APN European Retail Property Group (AEZ) which owns a portfolio of listed property in Europe.

The Directors and senior management of APN Property Group have considerable experience in the property funds management and property development industries in Australia.

APN FM has been in operation for ten years with APN Property Group Limited formed as the holding company in September 2004 and currently manages $3.4 billion funds under management based on market values at 31 October 2008. The company has offices in Melbourne (Head Office) and London and has approximately 60 staff.