

**ASX ANNOUNCEMENT**

16 August 2012

**REAL ESTATE CAPITAL PARTNERS USA PROPERTY TRUST**

**ASX CODE: RCU**

**ARSN 114 494 503**

**MARKET UPDATE – BOARD STRATEGIC DIRECTION REVIEW**

Real Estate Capital Partners Managed Investments Limited (ACN 115 913 810) (**Responsible Entity**) is the responsible entity for RCU. Real Estate Capital Partners Management Pty Limited (ACN 126 528 514) (**Investment Manager**) is the investment manager for RCU, on behalf of the Responsible Entity.

The Board of the Responsible Entity has made a preliminary review of the US property and financing markets, the assets of RCU and the go forward strategy of RCU and provides the following update.

**Update and correction on cash balances following sale of RSA Bedford Woods**

Reference is made to the announcement made on 23 July 2012 in respect of the sale of RSA Bedford Woods. That announcement contained a statement that, following the sale, RCU's net assets were expected to include cash of US\$13.9 million before allowing for the costs associated with the defence of the bid by Woolley GAL II Pty Limited.

The Investment Manager provides the following update and corrections to the previous estimate of RCU's cash reserves:

<b>Item</b>	<b>Amount US\$ million</b>	<b>Comments</b>
Original estimate - 23 July 2012	13.9	Did not include allowances for Woolley GAL II Pty Limited bid defence costs
Woolley GAL II Pty Ltd bid defence costs	(1.6)	Includes legal, corporate advisory, independent expert, Responsible Entity and Investment Manager expenses
RSA Bedford Woods sale – closing costs and adjustments	(1.2)	Transfer taxes, title insurance, prorations of prepaid rent, accrued interest and lender fees payable on sale
Trust expenses	(0.8)	Paid to The Trust Company and third party service providers directly by the Responsible Entity when controlled by The Trust Company, without Recap's knowledge
<b>Total Adjustments</b>	<b>(3.6)</b>	
<b>Adjusted Cash</b>	<b>10.3</b>	

As highlighted in the table above, the original cash estimate did not allow for certain costs and adjustments associated with the RSA Bedford Woods sale, or accrued trust expenses not then advised to the Investment Manager.

These amounts including the defence of the Woolley GAL II bid (which had not been quantified at the time of the 23 July announcement) reduced unrestricted cash reserves to US\$10.3 million. The impact of these additional equates to A\$0.03 per unit.

The net sales proceeds received by RCU for the sale of the RSA Bedford Woods property amounted to US\$90.2m. This reflects a 9.3% discount to the Book Value of the RSA Bedford Woods asset.

### **Distributions**

Having regard to current market conditions and management's cash flow forecasts as presented to the new Board, distributions will be unable to be paid out of operating income for the full year ending 30 June 2013.

Following the disposal of RSA Bedford Woods, RCU's cashflow is now more exposed to the receipt of distributions from the SGSA Joint Ventures relating to the RRT assets. These distributions are controlled by the distribution policy applied by the majority joint venture partner, Saban Capital Group. In the event that distributions are not made, RCU's cashflows will be adversely affected and management's cash flow forecasts indicate that any cash currently held by RCU will be needed to fund RCU's operating expenses.

Consequently the Board will be focused on reviewing RCU's operations, including fees paid to the Responsible Entity and the Investment Manager, to ensure that costs are managed.

In addition, the Board of the Responsible Entity will be undertaking a review of fees and costs paid by RCU since 1 January 2012.

### **Saban Capital Proposal**

The Investment Manager previously announced receipt of an indicative preliminary non binding proposal by Saban Capital for all the assets of RCU. The Saban Capital proposal equated to an offer of \$0.53 per unit and was subject to a number of conditions including RCU having material foreign exchange risk on the offer. The Board of the Responsible Entity has responded to Saban that its proposal was unacceptable in terms of price and condition and its discussions with Saban have ceased.

### **Risk to Value**

Revised net tangible asset figures will be published in the annual financial reports for full year ended 30 June 2012.

The Board will provide further commentary relating to the risks associated with the realisation of net tangible assets. In this regard, the Board of the Responsible Entity notes the current conditions in the US market and the specific characteristics of RCU's portfolio indicate that any near term sale of individual assets is unlikely to realise current book value.

### **Strategy**

The recent sale of the RSA Bedford Woods asset and the application of sale proceeds to reducing leverage of RCU to 18% (based on 31 December 2011 book values) has stabilised the capital structure of RCU allowing the Board and the Investment Manager to focus on the management of the asset portfolio.

The Board of the Responsible Entity does not believe that the board's goal of improving unitholder value will best be served by asset realisation in the near term and that the prudent course is to focus on value enhancement through leasing activity and the improvement of the condition of properties held by RCU.

Assets will therefore be held and sold only where individual asset characteristics and broader market conditions favour value realisation. It is expected that this will take time to achieve.

### **For more information, please contact the Investment Manager:**

Andrew Saunders – Chief Executive Officer  
Tom McCann – Executive Director, Funds Management  
Real Estate Capital Partners  
+61 2 9222 8100 or [enquiries@recap.com.au](mailto:enquiries@recap.com.au)