

## ASX ANNOUNCEMENT

15 July 2009

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The Manager  
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### **Property Valuations As At 30 June 2009**

#### **Quality Maintains Value In A Difficult Market**

##### **Highlights**

- Valuations of 100 properties remained substantially unchanged at \$804.77 million
- Weighted average capitalisation rate reduced marginally to 6.45% since 31 December 2008
  - capitalisation rates of larger value properties moved higher
  - capitalisation rates of smaller value properties moved lower
- Weighted average capitalisation rate increased by 0.25% to 6.45% since 30 June 2008
- Net assets per stapled security expected to increase, reflecting realised profits on property sales and revaluation of derivatives
- Independent valuation assessment was made after considering:
  - recent auctions of five ALE properties to individual private investors for \$27.8 million representing a weighted average capitalisation rate of 5.84% and a 10.5% premium to 31 December 2008 book values
  - sales evidence of other comparable properties leased to high quality tenants on long term leases
  - significant evidence of high levels of demand from individual private investors for smaller value high quality commercial properties
- Loan to value covenant headroom increased to 19% which allows the weighted average capitalisation rate to increase to 8.0%. After imminent property settlements ALE will hold \$55m of surplus liquidity that could be applied to substantially repay all the funding and hedging facilities that contain loan to value covenants
- ALE was the best performing AREIT over the past three and five years. The total return over the five years to 30 June 2009 was 21.1% per annum.

## **Property Valuations**

Listed real estate investment trust, ALE Property Group (ASX code: LEP) today announces that it has formally reassessed the value of its 100 freehold properties at 30 June 2009 at \$804.77 million.

This is in line with the value as at 31 December 2008 of \$805.07 million on a like for like basis.

ALE's reassessment of its 100 properties is based upon a detailed independent valuation of 33 properties plus desktop assessments of the remaining 67 properties by newly appointed valuer Urbis.

In completing the desktop assessments, Urbis had regard to the capitalisation rates applicable to the 33 properties they independently valued and in particular the movements on a state by state basis as well as any movements applicable to lower and higher value properties within the portfolio.

The weighted average capitalisation rate of 6.45% as at 30 June 2009 for ALE's 100 properties represents a reduction from 6.53% during the half-year and an increase from 6.20% during the full year.

## **Property Market Conditions**

Urbis advised that for the majority of Australian commercial property the capitalisation rates were currently increasing to higher levels. They attribute this to the following risk factors impacting upon a wide range of properties:

- increasing incentives to secure renewal of tenancies;
- increasing expenditure to fund capital improvements and maintenance due to tenant movements;
- lower tenant trading results potentially leading to increased vacancies;
- potential reversion to lower market rent levels in the short to medium term; and
- reduced numbers of buyers due to lack of funding from financial institutions, particularly for larger value commercial properties.

Urbis advise that the above risk factors largely do not apply to the lease arrangements and the properties owned by ALE. Indeed, there is an increasing demand from individual private investors for properties where these risk factors are minimised. This was demonstrated by the competitive bidding at the recent auctions of five ALE properties.

Urbis also confirmed that there remains a very strong demand for well established hotel properties with quality tenants and long term leases. Urbis concluded that the properties valued at less than \$10 million would attract a lower capitalisation rate than properties valued at more than that number. They observed that properties valued at more than \$10 million were less likely to attract a significant numbers of individual private investors due to difficulties in obtaining funding. On the higher value properties the capitalisation rates increased by up to 0.95% during the half-year.

The recent sales of five ALE owned freehold hotels for a total of \$27.80 million to individual private investors at a weighted average capitalisation rate of 5.84% further supported the above independent views. Details of these auction results were announced on 16<sup>th</sup> and 24<sup>th</sup> June 2009. The sales delivered an average 10.5% premium to the 31 December 2008 book values of \$25.16 million.

### Valuation Analysis

The following table provides a state by state analysis of the changes in value of the remaining 100 properties during the half-year since 31 December 2008:

State	No.	Net Rent (a) \$m	Weighted Average Cap. Rate at Jun 09	Value Change Since Dec 08 \$m	Total Value at June 09 (b) \$m	Average Individual Value at June 09 \$m
NSW	10	\$6.59	6.61%	\$(4.57)	\$99.73	\$9.97
QLD	37	\$15.07	6.24%	\$(4.57)	\$241.55	\$6.53
SA	9	\$2.61	6.22%	\$5.42	\$41.98	\$4.66
VIC	40	\$25.99	6.57%	\$1.44	\$395.68	\$9.89
WA	4	\$1.65	6.39%	\$1.95	\$25.83	\$6.46
<b>Total</b>	<b>100</b>	<b>\$51.92</b>	<b>6.45%</b>	<b>\$(0.33)</b>	<b>\$804.77</b>	<b>\$8.05</b>

(a) Net Rent is the rent net of Queensland land tax based on June 2008 Dept of Resources assessed value. As at June 2009. The actual land tax payable is lower as it is based on a three year rolling average of previous year's assessed values.

(b) Rounding differences occur due to individual property valuations being rounded to the nearest \$10,000

Value Movement Since 31 Dec 08	Number	Value \$m
Completed Properties at 31 Dec 2008	104	\$820.00
Development property completed	1	\$10.26
Properties sold (at 31 Dec 08 value)	(5)	\$(25.16)
<b>Current properties at 31 Dec 08</b>	<b>100</b>	<b>\$805.10</b>
Valuation movement since 31 Dec 08		\$(0.33)
<b>Current properties at 30 Jun 09</b>	<b>100</b>	<b>\$804.77</b>

A full listing of the current property valuations is included as Attachment A.

## **Queensland Land Tax**

In previous years ALE has received increased assessments for the majority of its 37 properties in Queensland. No new assessments have been issued during FY09. If no further assessments are issued in FY10 the land tax payable is still expected to increase by approximately 30% above the FY09 amount. This is due the large increases in the FY07 and FY08 valuation assessments and their gradual introduction over a three year period.

Additionally, following recent amendments to QLD Land Tax Legislation, from 1 July 2009 ALE will incur a further surcharge equal to 0.5% of the amount that each property's assessed unimproved land value exceeds \$5.0 million. This is expected to increase the total land tax expense for FY10 to around \$2.6 million (an increase of \$0.6 million). Full allowance for this increased land tax amount has been included in all of the above property valuations and assessments.

## **Net Assets per Stapled Security as at 30 June 2009**

Net assets per stapled security (excluding derivative valuations) were \$2.84 at 31 December 2008. The final net assets position will be announced with the release of ALE's audited results for the year to 30 June 2009. The final net assets position will include, among other items, property fair value movements and the final operating result for the half-year period.

The derivative net liability of \$41.57 million as at 31 December 2008 is expected to have substantially reduced to an immaterial amount due to the positive impact of an increase in longer term market interest rates over the half-year period.

## **Financial Ratios**

The property valuation results and recent property sales have enhanced ALE's financial position. The weighted average capitalisation rate on the properties would now need to increase to 8.0% before reaching one of ALE's loan to value covenants. An 8.0% cap rate would represent a 19% decrease from the current value of the properties.

Following the imminent settlement of the five recent property sales, ALE will hold \$55m of surplus liquidity that could be applied to substantially repay all of the funding and hedging facilities that contain loan to value covenants. Based upon current market interest rates, an amount of around \$70 million would be sufficient to fully repay these facilities and thereby remove the covenants.

None of ALE's other funding facilities (CIB, CMBS and ALE Notes) contain any covenants that are capable of being reached by property valuation movements.

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## Attachment A - List of Property Valuations

No.	Property	Dec 2008 Cap Rate	June 2009 Cap rate	Cap Rate Movement	Dec 2008 Valuation (\$Millions)	June 2009 Valuation (\$Millions)	Valuation Movement (\$Millions)
<b><u>New South Wales</u></b>							
1	Blacktown Inn Hotel	6.20%	6.50%	0.30%	8.21	7.83	(0.38)
2	Brown Jug Hotel	6.50%	6.75%	0.25%	8.40	8.09	(0.31)
3	Colyton Hotel	6.50%	6.29%	(0.21%)	12.14	12.55	0.41
4	Crows Nest Hotel	6.00%	6.75%	0.75%	13.04	11.59	(1.45)
5	Melton Hotel	6.60%	5.79%	(0.81%)	4.43	5.05	0.62
6	Narrabeen Sands Hotel	6.50%	6.75%	0.25%	10.26	9.88	(0.38)
7	New Brighton Hotel	5.70%	6.30%	0.60%	13.03	11.80	(1.23)
8	Pioneer Tavern	6.50%	6.50%	0.00%	8.35	8.35	0.00
9	Pritchards Hotel	6.60%	7.25%	0.65%	20.09	18.29	(1.80)
10	Smithfield Hotel	6.20%	6.25%	0.05%	6.35	6.30	(0.05)
<b>Total NSW</b>		<b>6.32%</b>	<b>6.61%</b>	<b>0.29%</b>	<b>104.30</b>	<b>99.73</b>	<b>(4.57)</b>
<b><u>Queensland</u></b>							
11	Albany Creek Tavern	6.40%	6.75%	0.35%	11.22	10.56	(0.66)
12	Albion Hotel	6.20%	5.89%	(0.31%)	6.42	6.33	(0.10)
13	Alderley Arms Hotel	6.75%	6.00%	(0.75%)	4.50	4.74	0.24
14	Anglers Arms Hotel	6.40%	6.01%	(0.39%)	6.44	6.59	0.15
15	Balaclava Hotel	7.60%	6.50%	(1.10%)	4.53	5.02	0.49
16	Breakfast Creek Hotel	5.80%	6.00%	0.20%	13.67	11.50	(2.17)
17	Burleigh Heads Hotel	6.38%	6.50%	0.12%	9.26	9.09	(0.17)
18	Caloundra Hotel	6.10%	6.25%	0.15%	6.71	6.55	(0.16)
19	Camp Hill Hotel	6.00%	5.76%	(0.24%)	3.35	3.28	(0.07)
20	Chardons Corner Hotel	5.60%	5.45%	(0.15%)	1.89	2.01	0.12
21	Dalrymple Hotel	7.60%	6.51%	(1.09%)	4.44	5.13	0.69
22	Edge Hill Tavern	7.20%	6.50%	(0.70%)	3.74	4.08	0.34
23	Edinburgh Castle Hotel	7.00%	6.00%	(1.00%)	4.41	5.04	0.63
24	Ferny Grove Tavern	7.00%	6.50%	(0.50%)	7.75	7.90	0.15
25	Four Mile Creek	6.50%	6.45%	(0.05%)	5.45	5.68	0.23
26	Hamilton Hotel	6.20%	5.70%	(0.50%)	8.09	7.23	(0.86)
27	Holland Park Hotel	6.10%	6.00%	(0.10%)	5.76	5.65	(0.11)
28	Kedron Park Hotel	6.20%	5.76%	(0.44%)	3.01	3.02	0.01
29	Kirwan Tavern	7.20%	6.52%	(0.68%)	6.99	7.70	0.71
30	Lawnton Tavern	7.00%	6.50%	(0.50%)	6.27	6.77	0.50
31	Miami Hotel	5.80%	5.46%	(0.34%)	6.41	5.98	(0.43)
32	Mount Gravatt Hotel	6.50%	6.00%	(0.50%)	4.55	4.62	0.07
33	Mount Pleasant Hotel	7.20%	6.25%	(0.95%)	2.79	3.24	0.45
34	Noosa Reef Hotel	6.20%	5.97%	(0.23%)	10.35	10.75	0.40
35	Nudgee Beach Hotel	6.25%	6.01%	(0.24%)	4.55	3.91	(0.64)
36	Oxford 152	6.00%	6.25%	0.25%	7.10	6.31	(0.79)
37	Palm Beach Hotel	6.25%	6.51%	0.26%	10.40	9.94	(0.46)
38	Pelican Waters Hotel	6.50%	6.25%	(0.25%)	5.70	6.04	0.34
39	Prince of Wales	6.60%	6.25%	(0.35%)	5.04	5.21	0.17
40	Racehorse Hotel	5.80%	5.49%	(0.31%)	2.35	1.76	(0.59)
41	Redland Bay Hotel	5.80%	6.00%	0.20%	7.70	7.45	(0.25)
42	Royal Exchange Hotel	6.00%	6.00%	0.00%	8.20	7.95	(0.25)
43	Springwood Tavern	6.40%	6.51%	0.11%	12.70	12.15	(0.55)
44	Stones Corner Tavern	6.20%	6.50%	0.30%	8.39	7.94	(0.45)
45	Sunnybank Hotel	5.80%	6.00%	0.20%	10.56	8.00	(2.56)
46	Vale Hotel	7.20%	6.75%	(0.45%)	8.90	9.51	0.61
47	Wilsonton Hotel	7.20%	6.75%	(0.45%)	6.52	6.93	0.41
<b>Total Queensland</b>		<b>6.41%</b>	<b>6.24%</b>	<b>(0.17%)</b>	<b>246.11</b>	<b>241.55</b>	<b>(4.57)</b>
<b><u>South Australia</u></b>							
48	Aberfoyle Hub Tavern	7.00%	6.25%	(0.75%)	4.84	5.42	0.58
49	Enfield Hotel	7.30%	6.04%	(1.26%)	3.68	4.45	0.77
50	Eureka Hotel	7.25%	6.26%	(0.99%)	4.82	5.59	0.77
51	Exeter Hotel	7.40%	6.00%	(1.40%)	2.78	3.43	0.65
52	Finsbury Hotel	7.25%	6.00%	(1.25%)	2.37	2.87	0.50
53	Gepps Cross Hotel	7.60%	6.25%	(1.35%)	3.30	4.02	0.72
54	Hendon Hotel	7.60%	6.11%	(1.49%)	2.41	3.00	0.59
55	Ramsgate Hotel	6.80%	6.49%	(0.31%)	5.68	5.95	0.27
56	Stockade Tavern	6.80%	6.27%	(0.53%)	6.68	7.25	0.57
<b>Total SA</b>		<b>7.14%</b>	<b>6.22%</b>	<b>(0.92%)</b>	<b>36.56</b>	<b>41.98</b>	<b>5.42</b>

No.	Property	Dec 2008 Cap Rate	June 2009 Cap rate	Cap Rate Movement	Dec 2008 Valuation	June 2009 Valuation	Valuation Movement
<b>Victoria</b>							
57	Ashley Hotel	6.75%	6.25%	(0.50%)	5.93	6.41	0.48
58	Bayswater Hotel	6.50%	6.50%	(0.00%)	15.45	15.45	0.00
59	Berwick Inn	6.80%	7.25%	0.45%	16.95	16.22	(0.73)
60	Blackburn Hotel	6.50%	7.00%	0.50%	13.35	12.40	(0.95)
61	Blue Bell Hotel	7.10%	5.75%	(1.35%)	3.03	3.74	0.71
62	Boundary Hotel	6.60%	6.50%	(0.10%)	19.10	19.40	0.30
63	Burvale Hotel	6.60%	7.00%	0.40%	14.43	13.61	(0.82)
64	Club Hotel	7.00%	6.28%	(0.72%)	7.40	8.25	0.85
65	Cramers Hotel	6.20%	6.50%	0.30%	13.56	12.94	(0.62)
66	Davey's Hotel	6.50%	5.52%	(0.98%)	4.13	4.86	0.73
67	Deer Park Hotel	6.75%	6.75%	0.00%	10.49	10.49	0.00
68	Doncaster Inn Hotel	6.50%	6.50%	(0.00%)	17.20	17.21	0.01
69	Eltham Hotel	7.00%	6.25%	(0.75%)	7.21	8.08	0.87
70	Ferntree Gully Hotel & Motel	6.50%	6.28%	(0.22%)	7.83	8.10	0.27
71	Gateway Hotel	7.10%	6.25%	(0.85%)	4.88	5.54	0.66
72	Keysborough Hotel	6.60%	7.00%	0.40%	13.44	12.67	(0.77)
73	Mac's Hotel	7.00%	6.75%	(0.25%)	9.67	10.03	0.36
74	Meadow Inn Hotel	6.75%	6.75%	(0.00%)	11.82	11.82	0.00
75	Mitcham Hotel	6.60%	6.75%	0.15%	12.37	12.10	(0.27)
76	Morwell Hotel	7.30%	5.79%	(1.51%)	2.40	3.02	0.62
77	Mountain View Hotel	6.50%	6.75%	0.25%	11.58	11.15	(0.43)
78	Olinda Creek Hotel	6.90%	6.00%	(0.90%)	5.69	6.55	0.86
79	Pier Hotel/21st Century	6.70%	6.75%	0.05%	11.37	11.29	(0.08)
80	Plough Hotel	6.80%	6.75%	(0.05%)	12.33	12.42	0.09
81	Prince Mark Hotel	6.50%	6.47%	(0.03%)	14.32	14.38	0.06
82	Royal Exchange Hotel	7.10%	5.78%	(1.32%)	3.43	4.21	0.78
83	Royal Hotel (Sunbury)	7.10%	6.25%	(0.85%)	4.33	4.92	0.59
84	Royal Hotel Essendon	6.50%	6.00%	(0.50%)	6.51	7.05	0.54
85	Sandbelt Hotel	6.30%	7.00%	0.70%	16.88	15.19	(1.69)
86	Sandown Park Hotel	6.25%	6.50%	0.25%	9.27	8.92	(0.35)
87	Sandringham Hotel	6.50%	6.25%	(0.25%)	7.10	7.38	0.28
88	Somerville Hotel	6.50%	5.78%	(0.72%)	4.31	4.84	0.53
89	Stamford Inn Hotel	6.30%	7.25%	0.95%	18.65	16.21	(2.44)
90	Sylvania Hotel	7.00%	6.28%	(0.72%)	7.80	8.69	0.89
91	The Vale Hotel	6.40%	6.50%	0.10%	8.28	8.15	(0.13)
92	Tudor Inn Hotel	6.50%	6.50%	0.00%	8.24	8.24	0.00
93	Victoria Hotel	7.30%	6.00%	(1.30%)	3.49	4.25	0.76
94	Village Green Hotel	6.25%	7.00%	0.75%	17.88	15.96	(1.92)
95	Westmeadows Tavern	6.75%	5.75%	(1.00%)	4.02	4.71	0.69
96	Young & Jacksons Hotel	6.00%	5.52%	(0.48%)	8.12	8.83	0.71
<b>Total Vic</b>		<b>6.59%</b>	<b>6.57%</b>	<b>(0.02%)</b>	<b>394.24</b>	<b>395.68</b>	<b>1.44</b>
<b>Western Australia</b>							
97	Queens Tavern	6.75%	6.50%	(0.25%)	6.86	7.12	0.26
98	Sail & Anchor Pub Brewery	6.70%	5.78%	(0.92%)	4.10	4.75	0.65
99	Brass Monkey	6.86%	6.58%	(0.28%)	7.24	7.75	0.51
100	Balmoral	6.85%	6.50%	(0.35%)	5.68	6.21	0.53
<b>Total WA</b>		<b>6.80%</b>	<b>6.39%</b>	<b>(0.41%)</b>	<b>23.88</b>	<b>25.83</b>	<b>1.95</b>
100	<b>Total Completed Properties</b>	<b>6.53%</b>	<b>6.45%</b>	<b>(0.08%)</b>	<b>805.09</b>	<b>804.77</b>	<b>(0.33)</b>