

MANTRA ON MURRAY

INFORMATION MEMORANDUM (As at 4th August 2017)

6.78% RETURN ON THE NET RENT (Why settle for less?)

These properties have proved to be a very popular form of investment. This document explains why! It provides comprehensive information to prospective buyers.

The Building

Mantra on Murray is located in central Perth, at 297 – 305 Murray Street Perth, approximately 200m west of the Murray Street mall and its intersection with William Street. It is immediately adjacent to the Murray Street Rail station and approximately equi-distant to the free public transport “Central Area Transit – (CAT)” Bus Service.

The building comprises basement parking and a ground floor which accommodates the Hotel reception area, public areas and the Hotel’s function and meeting rooms.

The ground floor also comprises two Strata Lots, one of which is leased to the Hotel for its bar and bistro and the other which is used for non-related commercial purposes.

The first seven floors above ground level are sub divided into 190 Hotel Suites. Each Hotel Suite is on a separate Strata Title and each is owned by individual investors. At the time of issue of this memorandum there are 6 owners who each own 2 apartments and 1 couple who own 3 apartments. All of the rest are owners who own a single apartment.

There are a further 3 floors (floors 8, 9 and 10) which comprise 60 separate Strata Title residential apartments. These apartments are not leased to the Hotel. A number are owner occupied whilst others are leased.

The Lease

The Hotel opened in August 2003. All 190 Hotel Suite leases have common terms and terminology.

The Hotel exercised the options on all 190 Leases when they fell due in August 2013.

Each Lease has a series of 5 year options. Under the terms of the original Lease all would have finally expired on the 15th August 2033. However, the Hotel operator has invited the owners to grant them further options through to 2043.

The Hotel is trading exceptionally well and continues to exceed sales budgets. Whilst we have no “inside information”, we expect that the Hotel will exercise all of the options when they next fall due in 2018. Our expectation is based on the Hotel’s commitment to expend over \$2,000,000 in capital costs during 2016 – 2018.

The Tenant named in the Lease is “Pacific International Suites (Perth) Pty Ltd”. That Company is a wholly owned subsidiary of the Mantra Hospitality Group. Mantra offer an extensive range of more than 250 resorts, retreats, hotels and apartments throughout

Australia, New Zealand, South Africa, Africa and the United Kingdom. Their brands include “Peppers”, “Mantra”, “Break Free”, Protea Hotels” and “African Pride”.

The Apartments

The apartments vary in size from 28 sqm to 58 sqm although most are in the range of 31 – 37 sqm. They are fully furnished; the furnishings being owned by the Hotel. The Hotel upgraded all furnishings in all rooms during the first quarter of 2017.

The lease provides that the Lessee (the hotel) may call upon the Lessor (the strata lot owner) once every 5 years to upgrade or replace the fittings installed in the suite and this is one of the very few expenses that the property owner may be required to make.

The 1st of those upgrades was completed in 2011 after 7 and a 1/2 years, at the cost of the then owners. The 2nd was to have occurred in July 2016 but that upgrade (which was to replace the room air conditioning system) was deferred. It is expected that the upgrade will occur during the 2018 calendar year and our estimate of the cost to each owner is likely to be in the vicinity of \$7,000. You can reasonably expect that after meeting that expenditure you will not be called-upon to finance a further refurbishment within the following 5 years.

Income and Expenses

The rent payable by the Hotel operator was set at the commencement of the Lease and was and is subject to regular review. The reviews are fully detailed in each Lease. Reviews are summarised hereunder.

The Lease was subject to renewal in August 2013 (10 years from commencement). A market value rent review was negotiated by WAPC for our clients increasing the rent by 4.5%. This followed a 5% increase in August 2012.

In August 2015, the rent was reviewed to the lesser of the CPI over the preceding two years or 5%. The actual review increased the rent by 4.56%. The August 2017 review resulted in an increase of 1.207% to each owner.

The next review will be in 12 months' time - In August 2018 (if the option is exercised) - a market value review capped to a maximum of 8%.

That cycle repeats itself with each of the five-year option periods – i.e. a market value review (maximum 8%) at the commencement of each five-year option term, followed by the 2 x CPI or 5% increases during that term.

In addition to paying the rent, the Tenant also pays:

- The Water Rates and water usage charges
- The Council Rates
- The Strata Reserve Fund levies
- All of the Strata Levies including all maintenance costs relating to the building **except** the cost of maintenance contracts for servicing essential services – e.g. the lifts, water supply and the fire and sprinkler services.

Owner Expenditure

On the current budget, Mantra pay approximately 90% of the total Strata Levies, leaving a majority of owners to pay around 10% of the Strata Levies from the rent income.

Property Management Fees.

The Lease requires that there be one Property Manager who shall manage on behalf of all of the owners. The owners can change Managing Agents by a majority vote. WA Property Connection is the currently appointed Property Manager. The buyer of a Strata apartment will be invited to enter into a Property Management Agreement with this Company.

Because we manage many hotel apartments in the building we can retain our management fees at very inexpensive levels. At 3.5% of rent they are possibly the lowest in Australia.

Summary of Costs

Over the past 10 years the proportion of Strata Levies for which the property owner is responsible has not exceeded 1.5% of the rent payable. The proportion for Lot 88 as at August 2017 is 1.19 %.

WAPC's Management Fee is 3.5% (excluding GST) of the rent collected or such lower percentage as will be necessary so that the combination of Strata Levy payable directly by the owner and the Property Management fee shall never exceed 5% of the rent.

On this basis, an owner's standard costs will not exceed 5% of its gross income throughout the life of the contract.

PRICES AND RETURN ON INVESTMENT.

We sold a majority of the apartments offered for sale within the past year. Ownership is generally very stable. Owners tend to sell their property only when their circumstances change. As investors come to realise the stability of this type of property investment, yields have tended to gradually come down. Sales are likely to reflect an investment return of around 6.75% - 7% on the nett rent after payment of the owner's proportion of the Strata levies and the management fee to this Company.

We have one property available.

APARTMENT 4.06 – STRATA LOT 88 – ASKING PRICE \$265,000 (Area 32 m2)

| | | |
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| Gross rent | | \$18,915.60pa |
| Management fee (Inc. GST) | \$728.28pa | |
| Owner proportion of Strata levies (Inc. GST) | \$224.28pa | |
| Net rent | | \$17,963 04pa |

Return on investment **6.78%**

Summary

The above is an exact breakdown - rent less costs = net rent – and then the return on investment with respect to the apartment we are currently offering for sale. Rents vary depending upon the size, location and nature of the fit-out of the Hotel Suite.

Whilst we make recommendations to each owner regarding the price at which they sell, the price sought by the owner is a decision for that owner. This helps explain why prices and returns may also vary from Apartment to Apartment.

**Brian Letts
DIRECTOR**

Disclaimer

The information contained in this Memorandum has been prepared with due care by WA Property Connection. Prospective purchasers should rely upon their own enquiries. The information contained herein in no way constitutes part of either an offer or a Contract on behalf of the Agent or the Owner.