SPIRE USA ROC II FUND (AUD) MONTHLY INVESTMENT REPORT

SPIRE CAPITAL

July 2013

New ROC II Program acquisition, The Retreat Apartments, Phoenix Arizona.

Inaugural Fund Update
Fund Holds First Close

Fund Update

Spire USA ROC II Fund (AUD) held its First Close as at 30 June 2013, raising approximately A$26.5 million These Funds were formally committed to the underlying ROC II Program on Friday 28th June 2013. The First Close of the Spire USA ROC II Fund (AUD) coincided with the Sixth and penultimate Close of the underlying ROC II Program. Following ROC II's Sixth Close, ROC II's total committed capital was approximately US$422 million.

The Final Close of the ROC II Program is expected to occur in mid to late August 2013. The Final Close of the Spire USA ROC II Fund (AUD) will coincide with the Final Close of the underlying ROC II Program.

Investors who had applied for Units in the Fund and had been issued Application Units as at 30 June 2013, have had these Application Units converted to Ordinary Units as at 1 July 2013. Because as at 1 July 2013, the first Capital Call Notice from the underlying fund had not yet been received (it was received on 11 July 2013), Application Units converted to Ordinary Units at $1.00 each. This is reflected in the Fund Statement which accompanies this Fund Update.

As indicated, the first Capital Call Notice was received on 11 July 2013. This triggered the payment of the first Capital Call to the underlying fund, and the payment of certain expenses at the Fund and underlying fund level. Accordingly the Fund's investment in the underlying fund will be reflected in the monthly Unit Pricing commencing 1 August 2013. The underlying ROC II Program has recently acquired the following properties, of which the Fund owns its proportionate share.

New Acquisitions
Increasing the ROC II Portfolio

Portfolio Update

Cameron Landing Apartments, Atlanta, Georgia

Cameron Landing is a garden-style community located in Stockbridge, Georgia in southeast Atlanta. The community benefits from excellent drive-by exposure along Mount Zion Road at the intersection of Highway 138, providing residents quick access to I-75 and I-675. The property was constructed in 1998 and comprises 368 units in 16 three-story residential buildings, a large leasing center/clubhouse, and 12 garage structures. Developed on 42.85 acres, the community offers an extremely low density of only 9 units to the acre. Cameron Landing provides ROC II the opportunity to take advantage of the strengthening Atlanta marketplace while implementing the Investment Manager's unique value-add strategy comprising both amenity/common area upgrades and interior unit renovations that are expected to drive revenues. In addition, excellent fixed rate financing is expected to provide solid cash flow to ROC II during the ownership period.

Villetta Apartments, Phoenix, Arizona

Villetta Apartments is a 352 unit apartment community located in Mesa, Arizona. This garden-style community was built in 1983 and is positioned on 13.5 acres. The release of rental restrictions will make this asset easier to lease in the future. This leasing adjustment, combined with the Investment Manager's unique value add strategy, including amenity/common area and interior unit improvements, along with the strengthening Phoenix marketplace should drive increasing revenues to this asset. In addition, excellent fixed rate financing will provide ROC II with strong cash flow during the ownership period.

New Acquisitions
Cameron Landing Apartments, Atlanta, Georgia (Left) and Villetta Apartments, Phoenix, Arizona (Right).

"Since April 2013, six new assets have been acquired by ROC II. These comprise one downtown Chicago office building, plus five multifamily communities providing a total of 1,729 new rental units. This takes the total number of multifamily rental units in the ROC II multifamily portfolio to 8,599."

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New Acquisitions
29-39 South LaSalle St, Chicago, Illinois (Left) and Palmilla Villas, Anaheim, California (Below).

29-39 South LaSalle St, Chicago, Illinois

LaSalle consists of two office buildings with retail (a combined 382,492 square feet) located in the "heart" of downtown Chicago's Central Loop District at the Northeast corner of South LaSalle and West Monroe Streets. ROC II acquired the first position loan at a significant discount and obtained a deed-in-lieu immediately thereafter from the underlying borrower. The base case business plan calls for a renovation of the office buildings and leasing up the remaining vacant space. During The first 90 days of ownership, ROC II will evaluate the possibility of selling one of the buildings to a hospitality operator, which may have significant upside beyond the base case business plan and financial analysis. The Investment Manager is also working to secure a debt package that would reduce the total equity to US$15M within 60 days from closing. The total initial cash commitment to acquire the property was US $19M.

Palmilla Villas, Anaheim, California

Palmilla Villas is a 169 unit apartment community located in Anaheim, California, one mile from Interstate 5, three miles from Highway 91 and less than a mile from Disneyland. This garden-style community was constructed in 1983 and is comprised of 10 three-story residential buildings built on 5.20 acres. The property currently operates at 95% occupancy. Based on Palmilla Villas' positioning in the competitive landscape of the submarket, the property is a prime candidate for implementation of an interior renovation program, as well as extensive improvements to exteriors and common area amenities. The opportunity lies in acquiring the asset at a discount to cost as well as implementing property renovations. These value-add strategies will drive revenue while providing solid cash flow to ROC II during the ownership period.

The Retreat Apartments, Phoenix, Arizona *(see photo front page)*

The Retreat is a 480 unit multi-family property located in Phoenix, Arizona. This asset, built in 1997, is situated on 25.75 acres (19 units/acre) in a great location within the North Phoenix metroplex. The Retreat is currently over 95% occupied. While the property is in excellent condition with very little deferred maintenance, and has a high quality amenity package, there is ample "value-add" opportunity to both expand the amenities to the current market and complete interior unit upgrades, which will drive revenues. In addition, ROC II was able to contract for the purchase of this asset at a price point well below higher offers, due to the Investment Manager's relationship with the seller and the seller's need for surety of close. Fixed rate financing is expected to provide excellent cash flow throughout the ownership period.

Mission Palms Apartments, Tucson, Arizona

Built in 1978, Mission Palms consists of 360-units located in northwest Tucson, Arizona. Due to the location and position of the asset, this community has substantial potential to increase rents by renovating the interior units, expanding the amenities, and performing general exterior and common area improvements. Current amenities include a clubhouse, billiards, two swimming pools, spa, putting green and two tennis courts, all of which are dated and under-amenitized. The property has an existing Fannie Mae loan that was assumed with an interest rate of 5.06% and maturity in July of 2015. The total capital ROC II commitment is US$9M.

Market Outlook

The bifurcation in the US commercial real estate market (which includes multifamily apartment community investments) continues. One the one hand, high levels of non-performing securitied and bank balance sheet commercial real estate loans still exist. To put this in perspective, recent data puts total delinquent CMBS (ie securitised) commercial property loans at US$52.8 billion[1]. In addition, the aggregate non-performing commercial property loans held by US banks totals approximately US$164 billion[2]. Thus the pipeline of potential acquisitions for the buyers of foreclosed properties or delinquent loans still looks strong.

On the other hand, strong investor appetite for yield in the US' low interest rate environment continues to support strong demand for stabilised commercial properties with good diversified cash-flows. This continued demand has resulted in capitaliation rate compression across most US markets, although this yield compression appears to have tempered following recent increases and volatility in US Treasury yields. Notwithstanding, there is still a strong market for sellers of stabilised cash flow producing properties to sell into. Looking just at the US' multifamily apartment market, in the past 6 months, US$73.95 billion of properties have changed hands. This represents 3,742 individual transactions at an average price of US $19.8 million[3].Thus 2013 appears safely on-track to exceed 2012's total multifamily sales volume of US$84.6 billion.

Source:

1. CRE Finance Council website
2. "Flocking to Europe 2013" - Ernst & Young
3. Real Capital Analytics website
4. Fannie Mae "Multifamily Market Commentary - February 2013"

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