



29 March 2020

Fund Update for Spire USA ROC Office Fund (AUD) (Incorporating the underlying fund, Bridge Office Fund (BOF))

Spire Capital has this week attended the six-monthly Limited Partner Advisory Committee (LPAC) virtual meeting for Bridge Office fund in its capacity as a Member of the LPAC, representing the interests of Spire Capital clients invested in Bridge Office Fund, either directly or via the Australian feeder fund 'Spire USA ROC Office Fund (AUD)'.

Our takeaways from the meeting are as follows:

Operations

- The COVID-19 crisis is unprecedented, for which there is no playbook.
- Many cities and counties in the United States are enforcing 'shelter in place' policies, with common amenities such as gyms being closed, however at this stage all alternative properties remain open. A high number of tenants are working from home.
- Bridge Office Fund does not have a high exposure to at risk industries of hospitality, travel and oil & gas. These industry groups represent less than 1% of the portfolio.
- Bridge has a high level of ongoing communication with tenants.
- There is still new leasing interest which is being moved forward. Digital marketing and virtual tours are being pushed to a new level.
- Minimal tenants to date have requested rent abatement, however there is an expectation of more to come. This is expected to mainly come from the fund's "local" tenant credit quality, which represents about 15% of revenue. About 81% of the portfolio's tenancy is institutional or regional credit quality, regarded as good credit tenants. The fund's assets can cover all operating expenditure and loan obligations at a 68% pay rate, so fund CIO John Ward believes the fund is well positioned.

General

- Bridge is training its on-site property management teams on how to deal with tenants who ask for a rental abatement. The starting position is 'no', with requests for financial information.
- The senior members of Bridge Investment Group, from Fund CIO Jonathan Slager, CEO of Bridge (multifamily) Property Management Richard Stayner, founders Dan Stanger and Chris Young, Chairman Robert Morse and Vice-Chairman Dean Allara, have successfully navigated through multiple market crises. These include the dislocation in the multifamily market as a result of the introduction of the 1986 Tax Reform Act, the Savings and Loans Crisis of the late 1980s / early 1990s and the Global Financial Crisis. This experience shows that Bridge know how to run properties 'lean and mean' if and when they need to. In their over 30 years of operating, Bridge has never defaulted on a loan or missed an interest payment.
- Bridge's vertically integrated platform gives it a tremendous advantage in navigating the current crisis. If it relied on third-party property managers, this would be much more difficult.

The Market

- There is currently very little price discovery occurring in the commercial office investment markets, however market deals that were under contract are typically being re-traded, meaning the buyer is seeking a price reduction at closing. For those sellers who are still prepared to trade on this basis, the reduction is typically around 2%, but has been as high as 10%.



- Any newly marketed deals that have not yet been awarded under contract, are typically being pulled from the market, due to big question marks on many buyers' ability to secure debt financing due to current dislocation in the debt markets.

Debt Finance

- There are five BOF office assets with a loan maturity in the next 6 months. Four will automatically qualify for extensions as they meet the qualifying covenants. One asset with a loan maturing in August falls just short of the debt yield covenant required for an automatic extension. However, BOF CIO John Ward is confident that an extension will be negotiated with the lender, Wells Fargo, with whom Bridge has a strong and longstanding relationship.

Impacts on the Fund

- For increased prudence, payment of the Q419 distributions by Bridge (for the period 30 September to 31 December 2019) from BOF I to Spire USA ROC Office Fund, and respective direct investors, will be deferred until the breadth and depth of the impact of the COVID-19 crisis on the portfolios is better known.
- As at 31 December 2019 (i.e Q419) the following metrics applied to the portfolios:
 - Occupancy: = 82.5%
 - Loan to Value ratio (LTV): = 62.8%
 - Debt Service Coverage Ratio: Office = 2.35x
 - Breakeven Occupancy to cover expenses and debt service: = 68.1%
- BOF Q4 NAVs and Partner Statements, including CIO letter, will be provided late March / early April. These will reflect pre-COVID-19 valuations. This will be reflected in the April unit price for Spire USA ROC Office Fund (AUD).

As all Spire Capital staff are currently working remotely, please address any queries to: info@spirecapital.com.au