25 May 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 Q1 2020 Fund Update for Bridge Office fund, 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)'.

Excerpts from the Q1 2020 Fund Update are as follows:

COVID-19 Actions and Impacts

- Through April the BOFI portfolio comprised 31 assets in 18 cities across 12 states.
- Bridge has been in constant communication and dialogue with tenants to offer tenants assistance during the COVID-19 pandemic. This has included Bridge making software available to tenants to adjust their space utilisation to implement social distancing requirements, by uploading their floorplans to overlay different furniture configurations. Bridge have also assisted tenants in navigating through the range of US government assistance programs available to tenants, such as the Paycheck Protection Program, or "PPP".
- All BOFI properties have remained open during the pandemic, due to the portfolio having tenants deemed essential workers. As shelter in place provisions are lifted, workers are returning to BOFI properties. Currently, on average approximately 30% of tenant employees are now occupying the properties. In some early mover states such as Georgia, this figure is 45%.

Operations and Leasing

- The portfolio is currently 80.06% leased and 77% occupied
- Rent collections are trending at 97-98% for each of April and May (meaning that 2-3% of tenants are not paying their rent). This is a testament to the portfolio's high percentage (77%) of credit covenant institutional and regional tenants and low exposure to tenants in the hospitality, travel and energy sectors. Government PPP assistance is assisting local tenants.
- Leasing activity is continuing, with 594,000 square feet (55,000 square metres) of leasing being finalised in Q1. Subsequently, a further 13 leases (4 new leases & 9 renewals) totaling 56,000 square feet (5,202 square metres) have been executed since April 1st,
- Overall operational expenditure is flat, with an increase in cleaning costs of 10-15%, being offset by an overall reduction in utilities costs due to lower than normal physical occupancy rates.
- Bridge is successfully using 'virtual tours' of office spaces with tenant representatives and tenants, to the extent that one 3,000 sq ft leasing deal had terms agreed without a physical tour (although an actual tour did occur before the lease was signed).

Market / Financial

- As at April the portfolio's economic occupancy was 77.1%.
- The breakeven economic occupancy rate required to cover Operations and Debt Service is 52.1%.
- Thus, the Underlying Fund has a strong operating surplus which will be distributed on a quarterly basis from Q2.

Spire Capital Pty Ltd ABN 21 141 096 120 AFSL No. 344365
Suite 4, Level 30, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000, Australia
Telephone +61 2 9047 8800 Facsimile +61 2 9047 8811 Email info@spirecapital.com.au Website www.spirecapital.com.au

- The biggest impact on the portfolio to date has been on the debt markets, with debt for buyers effectively drying up.
- This means that the sale of 3 stablised assets that were slated for marketing in late 2020, will be deferred until such times as buyers are able to access credit.
- The lack of price discovery in the market has resulted in Bridge adopting a conservative approach for Q1 valuations, adopting capitalisation (cap) rate increases of 50 to 75 basis points. However, the aforementioned Q1 leasing activity means that a higher level of income is being capitalised in the Q1 valuation process, thus the portfolio valuation change from Q4 2019 to Q1 2020 is essentially flat.
- As Bridge's original Discounted Cash Flow (DCF) analysis used to underwrite (i.e. assess) a potential acquisition always assumes an increase in exit cap rates, the cap rate increases being used in Q1 valuations are within tolerance and not expected to have a material impact on the underlying fund's expected total return.

Outlook

- Bridge Office Funds CIO, John Ward, has no doubt that the COVID-19 pandemic will result in a US recession but feels that the portfolio is well-positioned to weather this recession.
- At this stage he feels that the pandemic will increase the underlying fund's duration by some 12 months, as asset sales of stabilised properties need to be deferred.
- John feels that this will result in a slight decrease in projected IRR (i.e annualised total return) from circa 17% to circa 16%, but a higher equity multiple will result as a result of the longer holding periods for some assets.

As all Spire Capital staff are currently working remotely, please address any queries to:

info@spirecapital.com.au

Spire Capital Pty Ltd ABN 21 141 096 120 AFSL No. 344365
Suite 4, Level 30, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000, Australia
Telephone +61 2 9047 8800 Facsimile +61 2 9047 8811 Email info@spirecapital.com.au Website www.spirecapital.com.au