

Cannon Hill Office Trust Fund Update 11 October 2024

We are writing to you as Trilogy Funds Management Limited (**Trilogy Funds**), Responsible Entity for the Cannon Hill Office Trust ARSN 618 676 074 (**the Trust**).

Trust wind-up and postponement of sale

A sales campaign was recently undertaken prior to the expiry of the initial term of the Trust on 8 September 2024.

Upon conclusion of the sales campaign and as a result of current market conditions, Trilogy Funds has made the decision to postpone the sale of the asset.

This decision was reached after carefully considering and evaluating various market factors, including assessing the outcome of a recent four-week sale campaign undertaken by two national agents. Unfortunately, while 13 groups inspected the asset and five offers were received, the offers were below expectations.

Trilogy Funds does not believe that the prices offered are reflective of the long-term value of the property and are influenced by investors needing to sell in this soft market. As such, Trilogy Funds has formed the view that it is in the best interests of members to postpone the sale of the asset.

Updated unit price

At 30 June 2024, the Directors' valuation of the Trust's asset was \$21.0 million. This was reflected in the unit price at 30 June 2024 of \$0.63.

Pursuant to the aforementioned sales campaign and the subsequent offers received, the Directors' valuation of the Trust's asset as at 30 September 2024 has been revised to \$18.0 million, which reflects a unit price of \$0.42.

Market outlook

Given the decision to postpone the sale of the asset, we provide the following context to how Trilogy Funds views the market moving forward.

1. Market weakness is temporary

Weakness and volatility in the Australian commercial real estate sector has been driven by the rapid and consecutive increases in the cash rate by the Reserve Bank of Australia (**RBA**). In an attempt to combat high inflation, which peaked at 8.4% in December 2022, the RBA increased the cash rate 13 times in the period from May 2022 to November 2023.

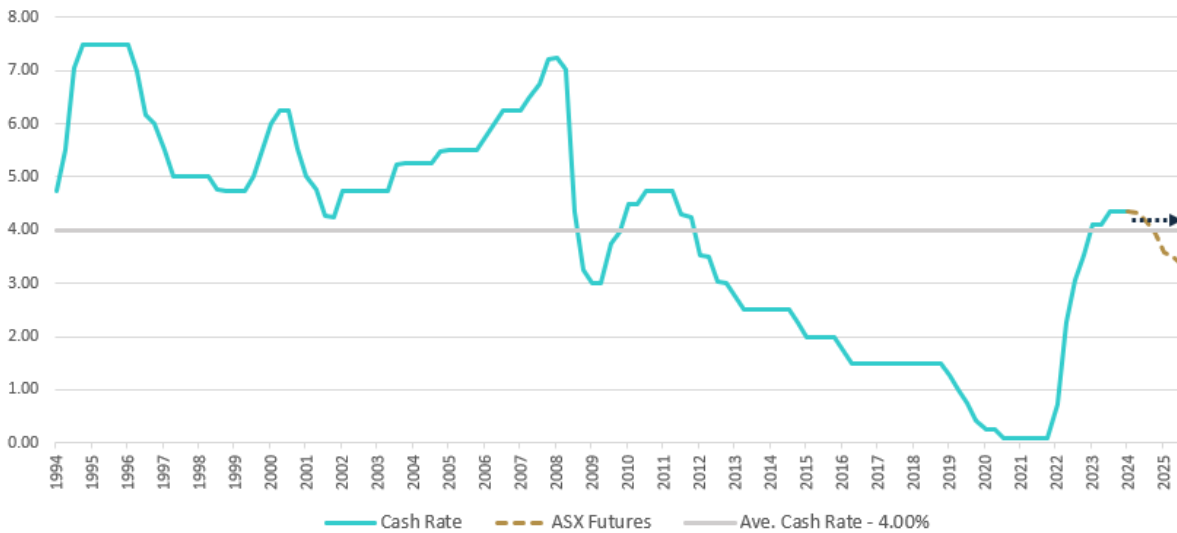
Encouragingly, inflation continues to decrease. The consumer price index (**CPI**) month-on-month increase in August was 2.7%, the lowest increase since August 2021. While this was a result of measures designed to ease the cost of living, forecasts for monthly inflation over coming months sit at or under 3%.

The drastic increase in the cash rate has negatively impacted the valuations for commercial real estate and investor demand, given the strong correlation between interest rates and investment yields. While concerning, this is a normal part of both the economic and real estate cycle.

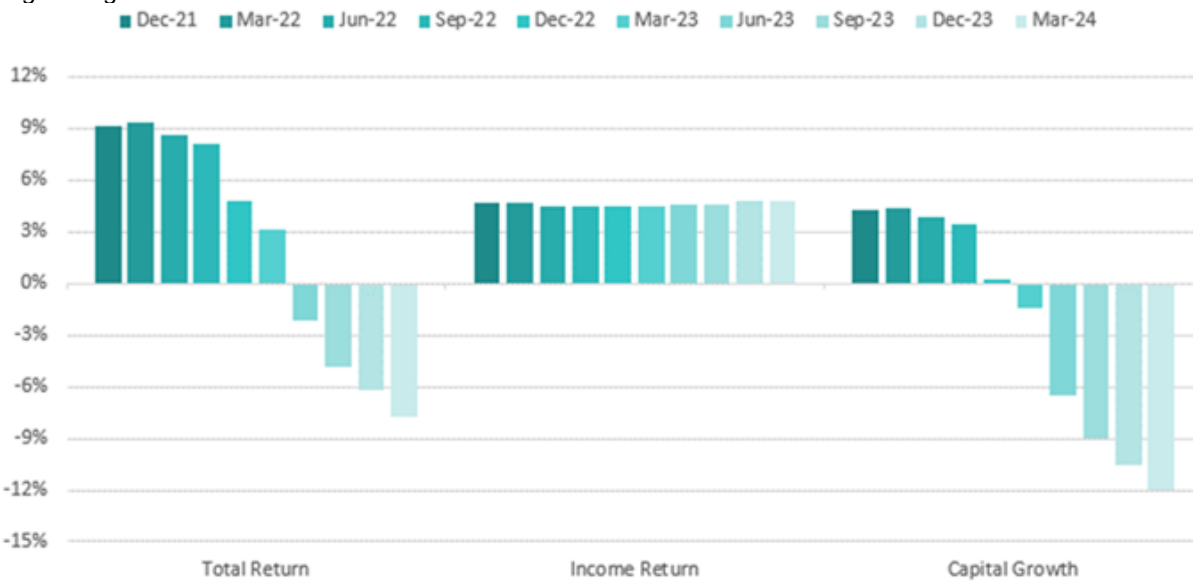
The current downturn, specifically relating to commercial office, is influenced by external factors, including interest rate movements, as well as changes in workforce patterns relating to COVID-19 and 'work from home' mandates. History has shown that these conditions are temporary.

With inflation moderating and cost of living pressures becoming more apparent across the economy, there is increasing impetus for the RBA to start thinking about reducing interest rates. Should this start to occur towards the end of 2024 or throughout 2025, it would likely have a positive effect on commercial property valuations.

Historical Cash Rate (yield %) and Futures Market expectation of Rates (source: RBA, ASX)



Performance of the Australian commercial office sector over the last three years – Property Council / MSCI All Property Index Digest August 2024



2. Solid fundamentals of the asset

Despite current market conditions, the asset retains solid fundamentals.

Its intrinsic value (land plus improvements), cash flow from committed leases, and location remain intact. Additionally, the asset is 100% occupied, maintains a 5-star NABERS Energy rating, benefits from a weighted average lease expiry of 3.66 years (as at 30 June 2024) by net lettable area, is over 2,500 sqm and is located just 6.2 kilometres from the Brisbane CBD.

These qualities suggest that the asset is well positioned to see possible price appreciation in the short to medium term, we believe making a hold strategy more advantageous to members in the current market.

Trilogy Funds aims to avoid realising losses in a down market

Selling in a depressed market means locking in losses. Trilogy Funds' investment approach focuses on maximising long-term returns, and selling now could undermine this strategy by crystallising losses that could otherwise be mitigated over time. By holding the asset, Trilogy Funds is allowing for a recovery that aligns with the broader economic and real estate cycle.

Despite the Brisbane fringe office market currently experiencing difficult conditions, there are several key factors that we believe will contribute to an improving market and renewed investor demand. These include:

- Strong population growth in Southeast Queensland from both offshore and interstate migration;
- Feasibility hurdles, including timeframe and cost of construction, are expected to result in very little new stock coming online; and
- Market rents have experienced good growth. Meanwhile, while incentives remain elevated, they have begun to moderate.

Next steps

Trilogy Funds is currently in discussions with the property's financier, Suncorp Bank, around the terms of a loan rollover for a further period. These discussions include the decision by Trilogy Funds to reduce the distribution rate from the Trust to 0.50% p.a. effective from 1 November 2024. This decision has been made to hold cash that may be applied to capital expenditure and tenancy works in the future.

Additionally, we will continue to closely monitor the market and other relevant factors for the next 12 months in determining when to dispose of the asset and will keep investors informed of all material updates in this respect. At the same time, Trilogy Funds will continue to prepare for the wind-up of the Trust.

For further information, please contact the Trilogy Funds Investor Relations team on 1800 194 500 or via investorrelations@trilogyfunds.com.au.