INSIGHT
MAGAZINE

AN INTRODUCTION TO PROPERTY VALUATIONS

PAGE 11

CROMWELL PROPERTY GROUP

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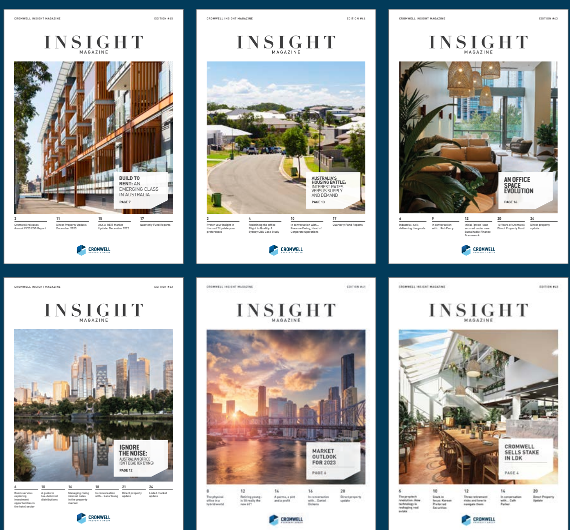

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Cromwell Property Group (ASX:CMW) (Cromwell) is a real estate investor and fund manager with operations on three continents and a global investor base. As at 31 December 2023, Cromwell had a market capitalisation of $1.1 billion, an Australian investment portfolio valued at $2.4 billion and total assets under management of $11.4 billion across Australia, New Zealand and Europe. Insight Magazine is published by Cromwell for our retail securityholders, investors, financial planners and other stakeholders. It is distributed quarterly and features our view of industry trends, news and educational matters. We also share our achievements in property markets and report on the progress of our investment funds.

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IN BRIEF

New healthcare fund opportunity

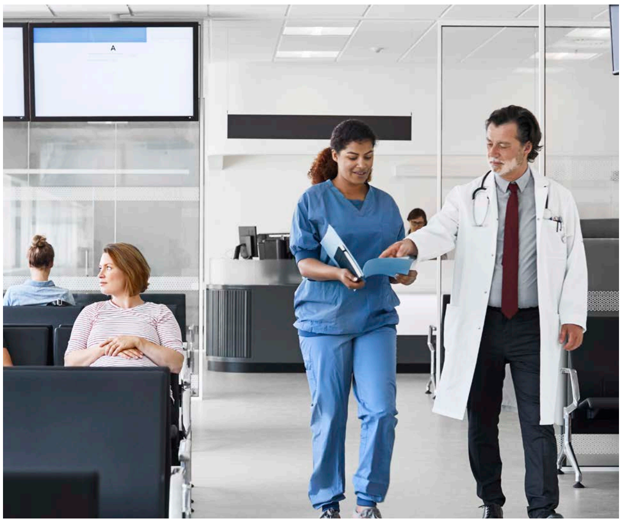
Cromwell Funds Management's latest property investment opportunity, the Cromwell Healthcare Property Fund, is launching soon.

The new Fund aims to provide investors with an average distribution yield over 7% per annum, paid monthly and is targeting an investment term of 5 to 7 years. The Fund replicates many features of Cromwell's other single-asset unlisted property trusts, including a strong tenant profile and long lease term.

Key characteristics:

- South Australian Government healthcare operator on long-term lease
- Essential health service provider for outpatient, primary, and allied health
- Facility alleviates pressure on nearby hospitals

For more information about the new fund, visit **www.cromwell.com.au**.



Cromwell ranks top five in NABERS Sustainable Portfolio Index (SPI)

The NABERS Sustainable Portfolio Index (SPI) results have been released for 2024 – and Cromwell has again achieved a top five position for both the Cromwell Direct Property Fund and Cromwell's investment portfolio.

Cromwell's Direct Property Fund

- Cromwell's Direct Property Fund (DPF) ranked fifth spot in the 'Offices and Shopping Centres' category for 2024 and was awarded a 5.3 portfolio energy rating by NABERS.

Cromwell Diversified Property Trust

- Cromwell's investment portfolio has been awarded the fourth spot in the 'Offices and Shopping Centres' category for 2024 with a 5.4 portfolio energy rating by NABERS.

This result reaffirms Cromwell's continued commitment to sustainability across our business, and we commend everyone in the business who helped achieve this impressive result.

Now in its sixth year, the SPI includes 60 office and shopping centre portfolios, as well as covering public hospitals for the first time, with 133 Victoria Health assets included.

The index offers a unique, whole-of-portfolio view of actual performance across energy efficiency, water efficiency, waste management, indoor environment quality, and carbon neutrality.

New ways to read insight

For years, Cromwell's Insight magazine has been one of the commercial property sector's premier publications – a regular way for us to connect with you, our investors. We continue to endeavour to bring you the most relevant, engaging, and insightful content in each edition.

We're conscious of the current challenging economic environment – and the need to reduce spend and minimise waste – while still delivering Insight to our eager readers.

As such, we have begun to roll-out a new way of getting news to you – a monthly digital version of Insight If you would like to receive news articles and commentaries each month via email, and you aren't already, complete the form online here: **www.cromwell.com.au/opt-in**.

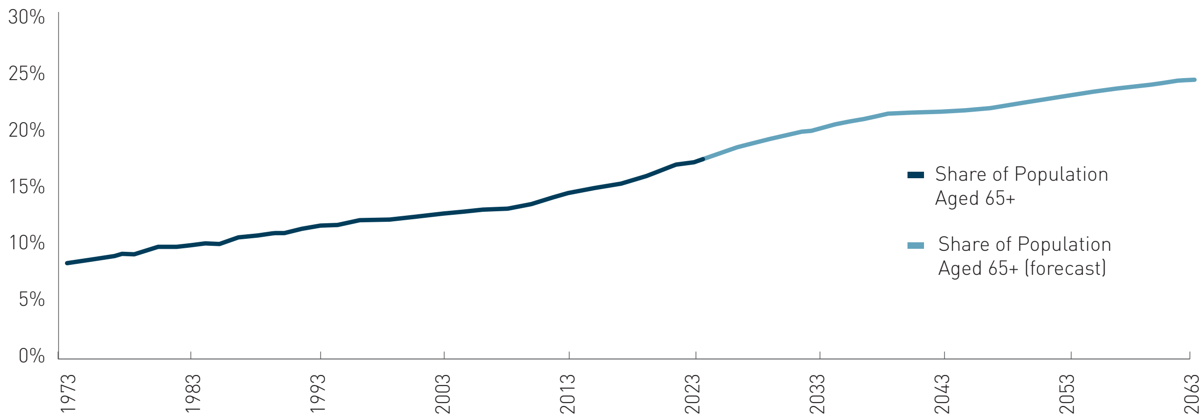
AN ESSENTIAL AND RESILIENT SECTOR: WHY HEALTHCARE PROPERTY

Colin Mackay
Research & Investment Strategy Manager
Cromwell Property Group

The healthcare and social assistance sector is an essential and growing industry, accounting for 8% of the Australian economy[1] and 16% of employment[2]. It is expected to see the biggest increase in government funding from 2022-23 to 2062-63, with government health spending per capita forecast to grow by 2.0% p.a. on an inflation-adjusted basis[3]. In this article, we'll provide a brief overview of healthcare's key growth drivers, and why healthcare property presents a compelling investment opportunity for income-oriented investors seeking stability and diversification.

1. National Accounts, ABS (Dec-23)
2. Labour Force, ABS (Feb-24)
3. Intergenerational Report 2023, Commonwealth of Australia (Aug-23)

Share of population ages 65+

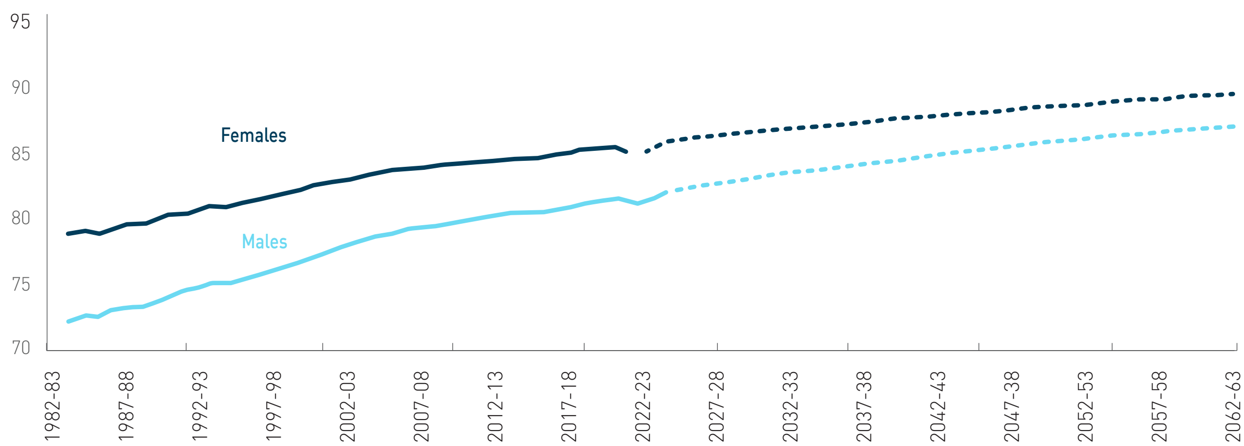


Source: ABS (medium population projections)

Demographic tailwinds

Growth in Australian healthcare is underpinned by several long-term demographic trends, which are spurring demand for care services. Firstly, Australia is forecast to experience the strongest population growth across developed economies over the next decade[4]. On top of broad-based population growth, there is an even more pronounced "population bulge" now sitting in the 65+ age bracket due to the post-war baby boom. Life expectancy is also rising, up from 78 years (men) and 83 years (women) 20 years ago to 81 and 85 today, with the rising trend expected to continue[3]. These factors mean the number of people aged 65+ will more than double and the number aged 85+ will more than triple over the next 40 years. As we live longer, the proportion of our lives lived in "full" health is slowly declining, meaning a longer period of time where health services and care are needed per person.

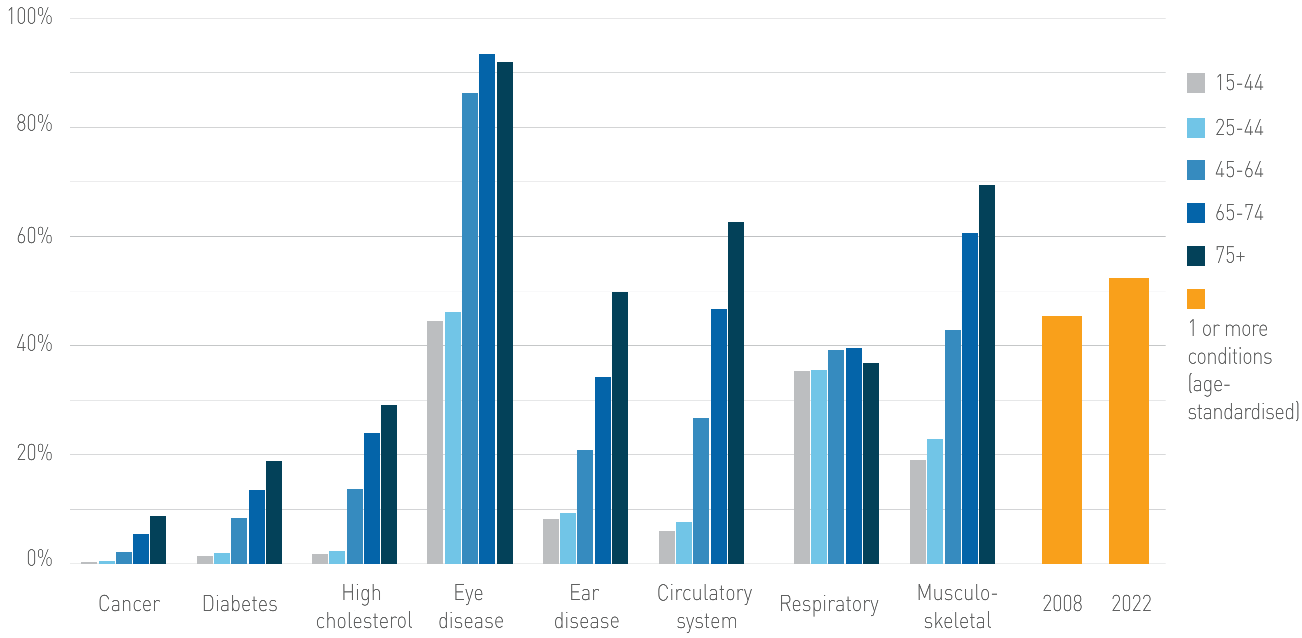
Life expectancy at birth



Source: 2023 Intergenerational Report (Treasury)

4. 10-year average growth from 2024-33 based on UN median population projections for 'More Developed Regions' excluding Holy See

Proportion of population with select long-term health conditions by age



Source: ABS (National Health Survey 2022; 2007-08

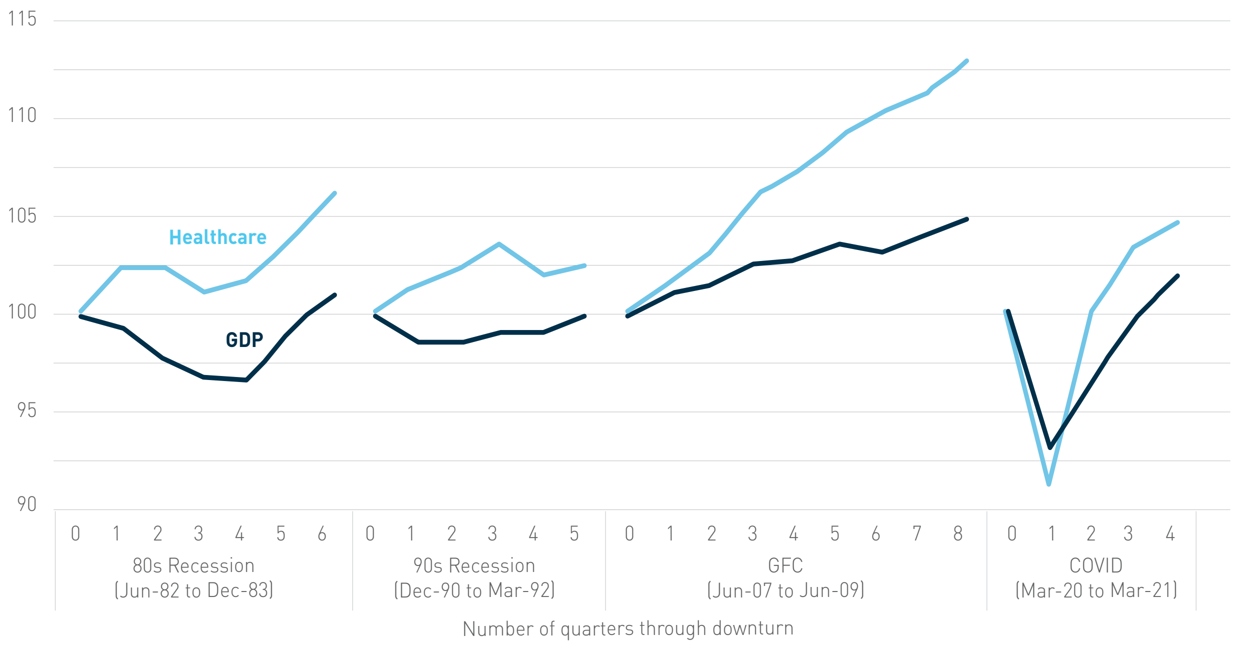
Rising disease incidence

Naturally, an ageing population also means rising disease incidence and complexity. People aged 65+ currently account for 40% of government health spending despite being only 16% of the population[3], with 95% of those aged 65+ having two or more chronic health conditions, compared to 59% of those aged 15-44[5]. This is being exacerbated by lifestyle factors, such as poor diets and lack of exercise, and improved medical detection and diagnostics, which are seeing the rates of disease incidence also increase on an age-standardised basis.

5. National Health Survey, ABS (Dec-23)

People aged 65+ currently account for 40% of government health spending despite being only 16% of the population.

Healthcare Gross Value Added vs GDP (Indexed chain volume)



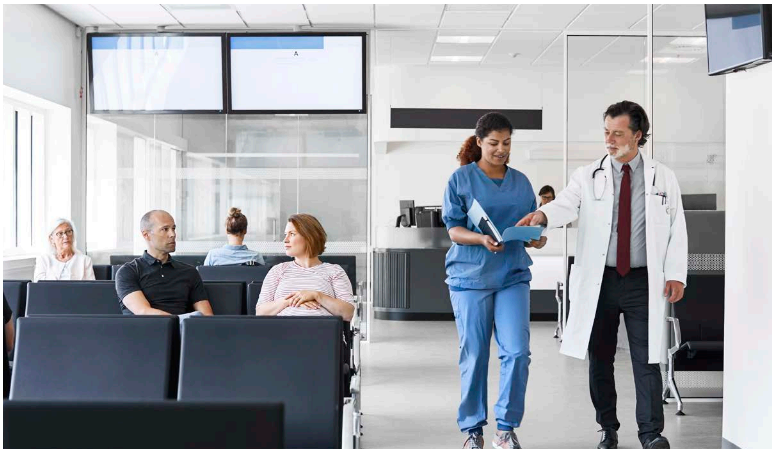
Source: National Accounts (ABS, Dec-23); Cromwell. Note: Australia didn't experience a technical recession during the GFC

Non-cyclical demand

Healthcare is a necessity service resilient to fluctuations in the economic cycle. Since gross value added data by industry has become available, healthcare has only contracted in 37 of 197 quarters, making it the second-most consistently expanding industry behind Education, which has contracted in 25 quarters[1]. By comparison, cyclical industries such as mining and construction have contracted in 69 and 71 quarters respectively.

Volatility in healthcare demand is lower than in other industries, and growth has also typically occurred even during periods of recession or global economic disruption (e.g. the GFC). In fact, annual growth in gross value added has never been negative for more than one consecutive quarter, with the worst result (-5.0%) recorded during the COVID-19 pandemic when most health services were shutdown. Even during the pandemic, the sector experienced a sharper recovery than the broader economy.

> Healthcare is a necessity service resilient to fluctuations in the economic cycle.



Strong fundamentals

The healthcare sector in Australia is an essential and growing industry. Underlying demand is being driven by long-term demographic trends such as population growth, the ageing population, and longer life expectancy. Rising disease incidence and complexity add further to the growing need for healthcare services and facilities. Demand is non-cyclical and resilient to economic fluctuations, making healthcare property assets a compelling investment for income-oriented investors seeking stability and diversification. ■

ESG IMPROVEMENTS KEY TO CROMWELL DIRECT PROPERTY FUND LONGEVITY

Cromwell Property Group is continuously looking at ways to increase the value of our properties – and generate long-term income – while progressing our own environmental, sustainability, and governance (ESG) ambitions and meeting the ESG expectations of investors, tenants, and regulatory bodies.

> "By undertaking these types of activities, we're creating a way to deliver financial returns, while reducing environmental impacts.
>
> Lara Young, Group Head of ESG

Efforts to conduct decarbonisation assessments for assets in the **Cromwell Direct Property Fund** (DPF) portfolio are currently underway - and, when complete, will help to establish a strategy for each building to optimise energy efficiency, with any remaining emissions offset to achieve net zero. It is expected that this round of assessments are due to be completed by late 2024.

Tenants at four buildings in the DPF portfolio have been powered by 100% renewable electricity – as part of the Australian Government's GreenPower initiative – since January 2024. These are:

- Altitude Corporate Centre, Mascot
- 100 Creek Street, Brisbane
- 420 Flinders Street, Townsville
- 433 Boundary Street, Brisbane

Cromwell's Group Head of ESG, Lara Young, said that the progress being made on ESG targets within the Cromwell Direct Property Fund portfolio – and the business more broadly – was a sign that Cromwell is finding ways to generate long-term, sustainable growth.

"To ensure that we maintain optimal returns over the longest possible duration – that the assets we provide generate the returns expected – we need to ensure that ESG is genuinely integrated and brought to life across all the activities we undertake, across all our investments," said Ms. Young.

"We want to continue to be able to have best-in-class assets and attract the types of blue-clip tenants that we've made a name for ourselves doing."

"By undertaking these types of activities, we're creating a way to deliver financial returns, while reducing environmental impacts."

Stage 2 solar installation completed

Cromwell has completed Stage 2 of our programme of works to install solar panels on buildings at locations across the country, as part of the business's commitment to meet our long-term ESG targets.

The months-long project stage saw approximately 930 individual solar panels installed across the roofs of six different assets, including four buildings in the Cromwell Direct Property Fund:

- Energex House, Newstead – 100Kw system
- 163 O'Riordan Street, Mascot – 100Kw system
- 19 George Street, Dandenong – 100Kw system
- 420 Flinders Street, Townsville – 39.9Kw system

Energex House, Newstead QLD

Cromwell Project Manager Tarek Ayoubi said each installation process presented different challenges, though the initial approach remained largely the same.

"We followed a similar methodology at most locations, then made allowances for different spaces and installation requirements," said Mr. Ayoubi.

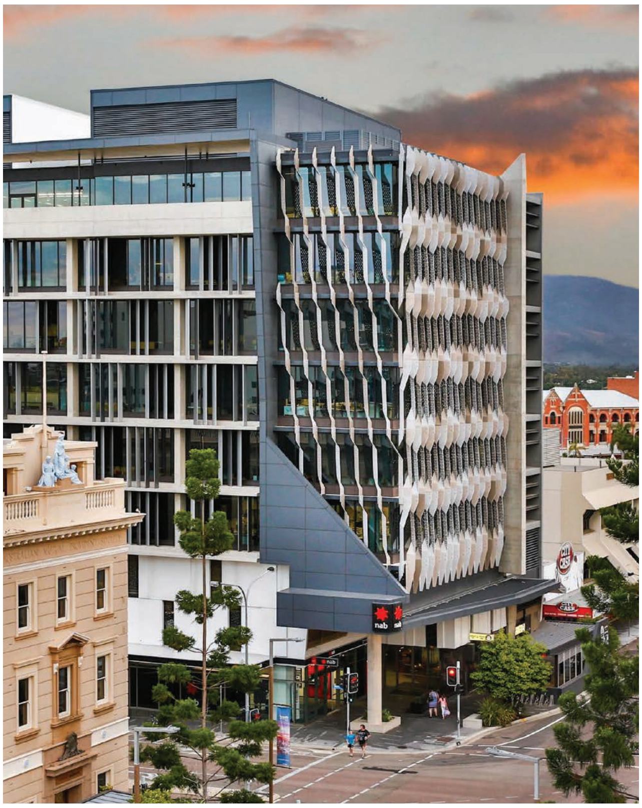
"This involved the head contractor working with other local contractors to develop a roll-out plan; establishing the position of the panels for the best sun exposure, while maintaining safe access to the roof; and engaging a structural engineer to advise on the proposed installation method and location."

"It was important to manage power connections, while maintaining minimum impact on tenants - and then coordinate with the local grid supplier for approval, before commissioning and energising the system."

"All works were completed in coordination with Cromwell's facility managers, to ensure the projects were delivered to a high standard and with no interruption to tenants."

> "We followed a similar methodology at most locations, then made allowances for different spaces and installation requirements.
>
> Tarek Ayoubi, Project Manager

19 George Street, Dandenong VIC



420 Flinders Street, Townsville QLD

"The Flinders Street building in Townsville was arguably the most challenging installation, due to unpredictable weather and structural conditions, which meant we had less flexibility than at other sites; however, we were able to make the most of the space available to us."

The Stage 2 solar installation is part of Cromwell's broader commitment to transition to a Portfolio Net Zero target for operational control buildings by 2035.

Cromwell's solar programme had generated 737 megawatt-hours for FY23 and was accounting for $165,000 in estimated savings per annum (with an average ROI of three years). This is the equivalent of reducing 538 tonnes of carbon dioxide equivalent – or approximately the emissions generated by 95 average households.

FY23

Cromwell's solar programme

737 megawatt-hours = Equivalent to reducing approximately the emissions generated by **95 average households**

AN INTRODUCTION TO PROPERTY VALUATIONS

Lachlan Stewart
Investment Manager
Cromwell Property Group

Cromwell's Investment Manager, Lachlan Stewart, is an experienced commercial real estate professional, who has spent more than 20 years working for highly respected organisations, including Colliers International and GE Capital Real Estate. He specialises in property valuations and financial modelling.

The importance of valuations

Section 601FC(1)(j) of the Corporations Act imposes an express obligation on a commercial property owner to ensure that the scheme property, which includes any real estate, is valued at regular intervals appropriate to the nature of the property. A company can decide to internally value or externally value a property.

As such, a commercial property valuation is the most reliable way of determining the market value of an income-producing property – it serves as an important, professionally backed tool for owners, investors, banks, regulators, and other interested parties.

Unlike residential property, commercial properties can be complex in the way that they are valued, given that every commercial opportunity is driven by a different set of needs and unique contributing factors. These factors will be explored in greater detail in this article.

Types of valuations

External valuation services

To undertake a property valuation of an asset, building owners engage external, independent commercial property valuers. These valuers generally:

- are independent of the property owner
- are authorised to practice as a valuer
- have experience in valuing properties like that owned by the property owner
- are registered or licensed in the relevant state, territory, or overseas jurisdiction in which the property is located
- subscribe to a relevant industry code of conduct in the jurisdiction where the property is located
- should have no conflict of interest in relation to the valuation.

Internal valuations

In some instances, building owners may choose to conduct an internal valuation. A company's Board may value a property itself where, in its reasonable opinion, it is not necessary or not practically possible for a valuation to be obtained from an external valuer. This valuation type typically uses the same methodology and metrics as independent, external valuations.

HOW TO CALCULATE MARKET VALUE WITH **INCOME CAPITALISATION APPROACH**

$$\frac{\text{NET MARKET OPERATING INCOME OF THE PROPERTY}}{\text{CAPITALISATION RATE}} = \boxed{\text{CORE MARKET VALUE OF INVESTMENT PROPERTY}}$$

EXAMPLE 1

Consider a property, which produces income of $100,000, is capitalised at 6.0% – the market value would be $1,666,666.

$$\frac{\$100{,}000 \text{ (INCOME)}}{0.060 \text{ (CAPITALISATION RATE)}} = \$1{,}666{,}666$$

EXAMPLE 2

If, due to market forces, the capitalisation rate tightened to 5.0%, and the income remained the same, the market value of the property would increase.

$$\frac{\$100{,}000 \text{ (INCOME)}}{0.050 \text{ (CAPITALISATION RATE)}} = \$2{,}000{,}000$$

EXAMPLE 3

If the capitalisation rate rose to 7.0%, and the income remained the same, the capitalised value would decrease.

$$\frac{\$100{,}000 \text{ (INCOME)}}{0.070 \text{ (CAPITALISATION RATE)}} = \$1{,}428{,}571$$

As you can see, market value moves inversely from capitalisation rates.

How properties are valuated

There are two main methods of valuation that are routinely applied to the asset valuations in Australia – the *income capitalisation approach* and the *discounted cash flow approach*. It should be noted that there are other methods of valuation, but, for the purposes of this article, we will examine these two most common methods.

Income capitalisation approach

Discounted cash flow approach (DCF)

Income capitalisation approach

The income capitalisation approach to property valuation examines the net income a property would achieve in an open market – regardless of whether it is leased or vacant – divided by the appropriate capitalisation rate, to give the core value of the asset.

The capitalisation rate (cap rate) (yield) is the component that moves with market forces, such as interest rate changes, economic growth, vacancy rates, inflation, and lease covenants. The capitalisation rate is similar to the price-earnings multiple, often used when valuing shares. Valuers will also look at the capitalisation rates of comparable sales over the previous 12 months when calculating the market value of an asset.

Once an asset value is determined, valuers can adjust for certain variables.

For instance, the valuers would make an adjustment for how much the current tenants are paying, compared to what the market rent of that property should be. Likewise, there would be adjustments made for any discount or tenant incentives that a building owner is applying to that space for the duration of those tenants' leases.

As part of this approach, valuers also look forward over the immediate horizon – which might be anywhere between 12 and 36 months – to consider any near-term lease expiry and will make an adjustment to reflect the costs associated with that downtime and re-leasing. They will examine whether there is any vacant space, as well as the costs associated with leasing that space out.

Valuers also look at any capital expenditure (capex) considerations that there might be. For example, if there's a broken lift, and it's estimated that $5 million will be required for a replacement, adjustments will be made to the core value, to end up with the market value. That value is applied to a point in time – "as at" the day of valuation.

HOW TO CALCULATE MARKET VALUE WITH **DISCOUNTED CASH FLOW**

Discounted cash flow approach (DCF)

More assumptions are involved in a DCF when compared to the income capitalisation approach – including the target return or discount rate, rental growth, lease expiry allowances, renewal probability, capital expenditure, and a hypothetical sale – but it has the potential to provide a more accurate picture of the cash flow horizon over a longer period.

Using this method, valuers typically forecast a 10-year cash flow, with a hypothetical sale at the end of year 10. All the income over the 10 years is discounted back to a present-day value at an appropriate discount rate. An exit terminal value at year 10 (for the hypothetical sale, using an appropriate terminal yield) is also discounted to a present-day value. To derive the net present value of the property, it becomes the sum of the discounted property cash flows and the discounted terminal value less the aquisition costs.

Determining an appropriate discount rate

To determine an appropriate discount rate, a comparison is made with returns from alternative investments, the most common comparison being the 10-year government bond rate, as it is considered 'risk-free' and matches the investment horizon. A premium is then applied to reflect the risk of a property investment when compared to the 'risk-free' rate.

Adjustments

Adjustments are made within the 10-year cashflow. For example, consider a multi-tenanted building. Realistically, not all tenants are going be there for the entirety of that 10-year horizon – so, these lease expiries are factored into lease cash flows.

The valuer considers what happens when each tenant's lease expires, applying a renewal probability of that tenant remaining (or leaving) and applying associated costs for potential downtime, capex to refurbish the space and the costs associated with re-leasing (leasing fees, incentives, etc.).

If an expiry is in six years, for example, the valuer has an informed opinion of what the market rental should be as at today, and then they'll apply a growth rate to get to the market rent at that point in time. They'll also apply a tenant incentive and will have a hypothetical lease term at that point in time.

So, the valuer is making a lot more assumptions here than what they would do in a capitalisation approach – but they're also getting a longer horizon of cashflows to look at.

Contributors to a property's value

The two biggest contributors to determining a property's value are: a) the net market income it can deliver; and b) the appropriate rate of return. An appropriate rate of return is the appropriate "multiple" or risk premium to apply to the income (like price-earnings) considering asset and market-level risk factors.

Both the net market income and the rate of return are affected by property and market-level considerations.

Property characteristics

There are all kinds of property characteristics that contribute to determining an asset's value. This includes the physical and locational characteristics of the land itself – for instance, an office building in the middle of the Sydney CBD

> Spaces occupied by blue-chip tenants and government departments are generally valued more highly, due to the security underpinning the lease.

is going to be worth more than that exact same building and lease profile in a metropolitan or regional market.

There are several additional factors that are important, including access to transport, amenity, natural light, and physical characteristics of the building. The desirability of the building for tenants is important to consider – for example, in a residential context, properties on Sydney Harbour or Brisbane River are worth more than those away from the waterfront. For commercial property tenants, proximity to customers and suppliers is also important, as are end-of-trip facilities; operational efficiency/ sustainability; design and ambience; and floorplate layout.

And then there is the tenant occupied characteristic – is a leased building worth more than an unleased building or a vacant building? Usually, the answer is that the leased asset has a higher value. Other factors, including weighted average lease expiry (WALE) are factored into the valuation – longer WALE is usually valued more highly, due to the security of the income and lack of capital expenditure (capex)/downtime assumptions. Spaces occupied by blue-chip tenants and government departments are generally valued more highly, due to the security underpinning the lease.

Similarly, costs associated with the property also come into consideration – a building that requires a heavy amount of capex is generally going to be worth less than a building that's just had a large amount of capex spent on it.

Market conditions

Broader market conditions also play an important role in determining asset values at a point in time. As explained above, movement in the 'risk-free' rate influences the appropriate risk premium to be applied to a property's cashflow, and is affected by interest rates, inflation, and other financial and economic conditions.

Surging inflation and higher interest rates have been a major driver of recent cap rate movements, with the cash rate target increasing by 4.25% since March 2022, and the 10-year government bond yield increasing by 1.69% over the same period. This has led to a rise in cap rates, in order to maintain the typical 'spread' between the risk-free rate and property. The table below highlights the shift using New South Wales/Sydney as an example.

Uncertainty regarding the future can also be an influence on cap rates. This has been exemplified by office valuations, where the impacts of hybrid working on office space demand are yet to be fully understood. While some of the potential impacts may be reflected in rental growth assumptions, some may be reflected in the cap rate as a general measure of higher risk.

Capital markets can also influence cap rates. If a particular asset class or sector becomes more desired, the price investors are willing to pay per unit of income will increase and vice versa. This was seen over the last five years across the industrial sector. Institutional investors in particular viewed the sector more favourably than had been the case historically, contributing to a greater weight of capital pursuing an allocation – the magnitude of the capital shift outpaced the ability of the market to supply new stock, leading to higher valuations.

In summary

In the face of fluctuating markets, a commercial property valuation is the most reliable way of determining the representative value of Cromwell's income-producing assets. As a business, we adhere very closely to the mythologies outlined above to provide investors with clear and accurate information on each of our assets. Cromwell will continue to provide transparency about the valuation process – and how our properties are valued, as the information is generated. ■

PROPERTY AVG EQUIVALENT YIELD	PRIME CBD OFFICE	OUTER CENTRAL WEST SYDNEY INDUSTRIAL	NSW REGIONAL SHOPPING CENTRES	NSW N'HOOD SHOPPING CENTRES	10Y GOV BOND YIELD
Mar-22 (%)	4.44	3.26	5.13	5.13	2.50
Dec-23 (%)	5.69	5.25	6.00	6.25	4.19
Change (bps)	125	200	87	113	169
Spread to Gov Bond (bps)	150	106	181	206	na
Historical (25y) Avg Spread (bps)	184	310	200	340	na

Source: JLL; RBA; Cromwell

PROPERTY PROFILE

CHESSER HOUSE

95 GRENFELL STREET, ADELAIDE

Chesser House at 95 Grenfell Street, Adelaide, was acquired by Cromwell Funds Management in April 2022 for $81.35 million, on behalf of Cromwell Direct Property Fund (DPF) unitholders. The 11-storey building has a total net lettable area of 11,155 sqm, with rental income underpinned by blue-chip building users, as well as federal and state government tenants.

Leasing activity

A total of four new leases have been signed for Chesser House in the last nine months (to 1 April 2024), including a significant state government tenant.

Building benefits

As part of Cromwell's approach to asset management, the performance of each property is continually appraised – relative to market demand; possible future uses; socio-demographic profiles; and growth corridors. Understanding the property cycle, future capital works, and the demand for continuing occupation underpins every asset management and refurbishment strategy across our business.

The most recent tranche of building works at Chesser House was completed in September 2023. These works involved installation of a full-floor LED lighting, ceiling finishes, floor finishes, and services upgrades; a lift lobby refurbishment on Level 9; and a brand-new end-of-trip facility with a dedicated bike storeroom. Consequently, these works resulted in two new leases being signed.

In addition, a 93KW solar panel system was installed, which generates 17% of the total base building power. The property has maintained its NABERS Energy Rating at 5.0 Stars, with Green Power at 22.5%. The NABERS Water Rating is currently 4.5 Stars.

Across our business, Cromwell's Asset Management team continues to take shifting tenant requirements into consideration, such as those post COVID-19, when designing these spaces. The recent focus has been on designing breakout areas and collaboration zones in addition to providing quiet rooms to those wishing to concentrate on tasks or avoid distraction.

In-building amenity

End-of-trip facility

The end-of-trip design utilised a neutral colour palette accentuated by premium finishes that complement the recently completed building lobby. An indigenous artwork called "Waves of Hope" by Samantha Webster was also commissioned via Wall Trade.

A considerable number of bike racks were installed by market-leading bike room creators, Five at Heart – included to meet the increasing demand of people cycling to work.

Tenant satisfaction

Measuring and understanding tenant satisfaction levels is core to Cromwell's tenant retention strategy, and is critical in helping to maximise rental yield – which translates to greater investor returns.

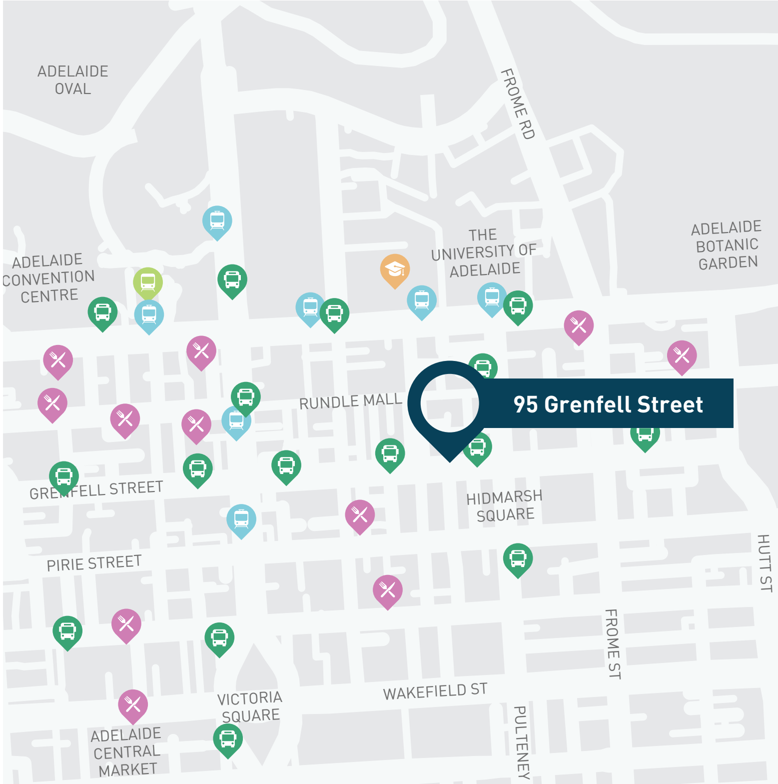
Future Forma – an agency specialising in the independent evaluation of tenant–customer experiences across individual assets and portfolios – was engaged by Cromwell Property Group to conduct annual tenant surveys, commencing in August 2023. 75% of survey recipients at Chesser House provided responses to the survey. A five-point ratings system was used for the survey:

RATING	WEIGHTING (POINTS OUT OF 100)
Poor	15
Below Average	40
Average	65
Above Average	85
Very Good	100

	PROPERTY MANAGEMENT TEAM	BUILDING SERVICES	OVERALL SCORE
95 Grenfell Street	90	80	85
Tenant Satisfaction Index	84	79	81

Responses were marked against the Tenant Survey Index (TSI), which comprises of 350+ investment grade office building surveys throughout Australia, and is calculated as a rolling four-year average to ensure that data remains current.

As seen in the table above, 95 Grenfell Street tenants awarded Cromwell an overall satisfaction level 4% higher than the Tenant Satisfaction Index.



Property profile

The property is located in the heart of the South Australian capital and provides direct linkages to major transport routes, as well as connectivity to Adelaide's premier retail precinct, Rundle Mall, and the grassy Hindmarsh Square. The parallel Pirie Street has also emerged as a leading entertainment, food and beverage destination for locals and visitors to the City of Churches.

The property façade was last upgraded in 2017 and features a steel structured lightbox fitted with contemporary LED lighting coupled with translucent panels. The lighting can be programmed remotely to adjust the colour, luminosity, and function of the lightbox, providing a striking visual appearance.

Inside the building, a double-height entrance lobby gives way to a working lounge and café, as well as a 7-metre feature green wall, fitted with engineered grow lights and an irrigation system. The foyer space provides quiet, sophisticated meeting spaces for tenants to use.

Key statistics:

Occupancy:

91.5% (as at 31 March 2024)

Sector:

Office

Net Lettable Area:

11,155 sqm

Energy Label:

5.0-Star NABERS Energy rating

Water Label:

4.5-Star NABERS Water rating

About Cromwell's Direct Property Fund

The Cromwell Direct Property Fund is comprised of a quality portfolio of nine commercial property assets – including 95 Grenfell Street – with a long, 4.2-year weighted average lease expiry (WALE) and 53% of income sourced from government and listed tenants.

Find out more about DPF at **www.cromwell.com.au/dpf**.

CFM has prepared the investment updates and is the responsible entity of, and the issuer of units in, the funds referred to in the investment updates (the Funds). In making an investment decision in relation to a Fund, it is important that you read the disclosure document and the target market determination for that Fund. The investment updates for each Fund refer to the disclosure document (product disclosure statement and any supplementary product disclosure statement) issued for that Fund. The disclosure document and target market determination for each Fund are issued by CFM and are available from www.cromwell.com.au or by calling Cromwell's Investor Services Team on 1300 268 078. Not all of the Funds are open for investment. Applications for units in open Funds can only be made on application forms accompanying the disclosure document for the Fund.

THE POWER OF AI IN REAL ESTATE: A PARADIGM SHIFT

Colin Mackay
Research & Investment Strategy Manager
Cromwell Property Group

The real estate industry, traditionally characterised by its cautious adoption of new technologies, is now at a pivotal juncture. The emergence of AI, with its open-ended and self-evolving nature, promises to fundamentally change the way we live, work and play.

Investors, managers, and occupiers find themselves sitting atop mountains of data, proprietary and third party, about properties, communities, and market dynamics. This wealth of information can be harnessed to tailor AI tools for real estate-specific tasks. Imagine lightning-fast identification of investment opportunities, efficient analysis of ESG data, revolutionary building and interior design, personalised marketing materials, and seamless customer journeys. The potential value creation is staggering with estimates suggesting that AI could generate between $168 – $275 billion for the real estate industry[1].

However, realising this potential requires more than just deploying AI models and tools. Stakeholders must navigate a number of complexities, mitigate their risk exposure, and confront ethical concerns.

In this report, we will look at how AI is currently used across the industry, and how it promises to reshape real estate through an occupier and investment lens.

Figure 1: Timeline of AI

- **1950** Alan Turing creates a test to evaluate a machine's intelligence by assessing its ability to engage in human-like conversation, the so-called 'Turing Test'
- **1951** Claude Shannon's creation of Theseus, a robotic mouse which was an early example of machine-learning.
- **1955** Arthur Samuel develops a program that autonomously learned to play draughts.
- **1956** The term "Artificial Intelligence" was created at Dartmouth University.
- **1957** Frank Rosenblatt developed the perceptron, a type of artificial neural network.
- **1972** MYCIN, an early AI system for treating blood infections, was developed at Stanford University.
- **1990** Natural Language Processing (NLP) and Computer Vision become active areas of research.
- **1997** IBM supercomputer, Deep Blue, defeated chess grandmaster Garry Kasparov.
- **2019** Language model, Generative Pre-trained Transformer 2 (GPT-2), is released.
- **2020** American company, Waymo, launches a fully autonomous taxi service in Phoenix, Arizona.
- **2022** ChatGPT is debuted.
- **2023** Generative AI (gen AI) tools experienced explosive growth with an estimated one third of global organisations using gen AI regularly in at least one business function[1].

1. McKinsey & Company, 2023

AI adoption

AI has been transforming a range of industries from financial services to healthcare, revolutionising processes, enhancing decision-making, and creating new opportunities. It is also poised to become an integral part of the real estate industry. Currently, it is mainly used to streamline processes, improve accuracy, and enable data-driven decisions. Some examples include:

Automated content creation: AI systems proficiently generate content, including emails, articles, and press releases. For instance, AI-powered tools can draft initial investment memorandums, providing a solid starting point for further refinement.

Legal document drafting: Litigation-related disclosure obligations were a gateway for AI to enter the legal world by transforming mass document review and enabling greater standards of compliance. Law firms now also leverage AI to draft legal documents, such as sale and purchase agreements and lease summaries. These AI systems analyse existing templates, extract relevant clauses, and generate customised contracts, streamlining the legal process. Law firm BCLP has used AI to develop a lease reporting tool which the firm claims will save its employees 25% of their time[2].

Predictive analytics: AI algorithms analyse historical data to predict market trends and property values. Real estate professionals can make informed decisions based on these insights.

Virtual assistants and chatbots: AI-powered virtual assistants handle inquiries, schedule property viewings, and provide property information. With regard to leasing and property management, a case study from Elise AI claims they were able to increase their conversion rate by 112% and increase appointment bookings by 317%, whilst saving on average two hours each day[3].

The real estate industry has accumulated vast amounts of data. Historically, there have been persistent questions regarding how to efficiently analyse this data and leverage it for research, operations, and investment management. Now, with AI and AI-powered tools, we are witnessing a transformative shift. For example, AI enables organisations to efficiently track, analyse and report on ESG-related data, which is crucial for making informed decisions and meeting regulatory requirements. A KPMG survey stated that 58% of organisations plan to improve ESG data collection using AI[4].

Shifting occupier markets

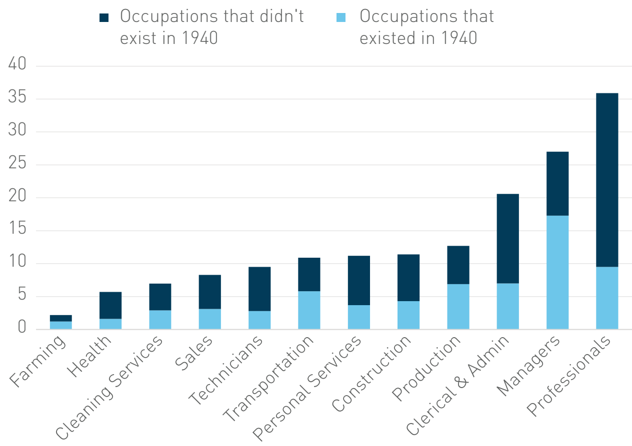
A less discussed perspective is AI's potential influence on occupier behaviour and how their space usage and demands may evolve. Understanding shifts in occupiers' location, asset type and amenity preferences is crucial to optimising allocation decisions and driving investment returns.

1. Offices

- Mass job losses from AI not expected, but the nature of roles will change significantly
- Mix of space to continue shifting towards collaboration and social engagement
- Occupiers to prefer centralised locations over satellite offices

One of the key concerns regarding AI and office markets is the prospect of automation displacing swathes of jobs, reducing demand for space. After all, ChatGPT doesn't need a desk! But the long list of examples through history of technological advancements and their impacts on the workforce show the reality is generally multifaceted – some jobs are displaced, others are altered, and many are created. Analysis of US employment finds that 60% of workers today are employed in occupations that didn't exist in 1940. While AI-related net job losses are possible, the historical experience and adaptability of society over time suggests economic and employment growth is the more likely outcome of AI-related innovation[5].

Figure 2: US employment (million people)



Source: Goldman Sachs Research, 2023

2. Legal futures, 2024
3. Artificial intelligence – implications for real estate, JLL, 2023
4. ESG survey, KPMG, 2023
5. Future of Jobs Report 2023, World Economic Forum, 2023

Figure 3: Office satisfaction by location (APAC)

Source: Why Asia Pacific offices are different and now is the time to invest, CBRE 2023

However, the composition of the labour force and the nature of many roles are likely to shift significantly. While the capabilities of AI have improved dramatically, it is still well suited to repetitive tasks with well-defined parameters such as data analysis, administrative reporting and assisting in content creation[6]. It is less proficient than humans when it comes to relationship management, innovation, and strategic decision-making. As AI shoulders a greater load of the 'grunt work', humans will be able to allocate more of their time to high value tasks that are interpersonal, collaborative, and complex in nature. For example, a software engineer may spend less time programming and more time understanding client requirements and discussing solutions.

A shift in the balance of tasks could see the nature of roles become more suited to a collaborative environment and reinforce preference shifts and space usage changes that have occurred since the pandemic. The purpose of the office has shifted towards performing human-centred, collaborative tasks[7], while workers are undertaking more of their 'focused' tasks at home. Occupiers are therefore prioritising centralised, rather than distributed or satellite locations[8], to maximise in-person interactions. This is supported by a greater proportion of office footprints being allocated to collaborative and activity-based working environments, such as meeting and conference rooms, stand-up areas, and communal spaces rather than desks[9].

Organisations will continue to strive to make their office footprint as efficient as possible, a trend which has been underway for decades. Dynamic desk management can be used to coalesce employees and reduce energy consumption where desks are not being utilised, with AI providing additional "smarts" to further optimise existing systems. This kind of management system is more likely to be adopted by larger occupiers, given their workforce and office floorplate can be more easily flexed, and they have a greater propensity to rationalise their footprint[7], compared to smaller occupiers.

Ultimately, the ingredients for success will remain largely the same. Assets in the best central locations, offering diverse amenity and high-quality space for a suitable price, will outperform those that are less aligned to the preferences and needs of occupiers.

6. Australia's Generative AI opportunity (Tech Council of Australia & Microsoft, 2023)
7. 2023-2024 Global Workplace & Occupancy Insights (CBRE, 2023)
8. Asia Pacific Live Work Shop Report 2022 (CBRE, 2022)
9. The Role of AI in Developing Resilient Supply Chains (Cohen & Tang, 2024)

2. Logistics and industrial

- Adoption of intelligent autonomous robots to proliferate, particularly in big-box warehouses
- Occupiers may prioritise large regional hubs and small last mile sites, at the expense of medium-sized intermediate facilities
- Space demand could be boosted by onshoring in some industries, if supply chain efficiency improves significantly

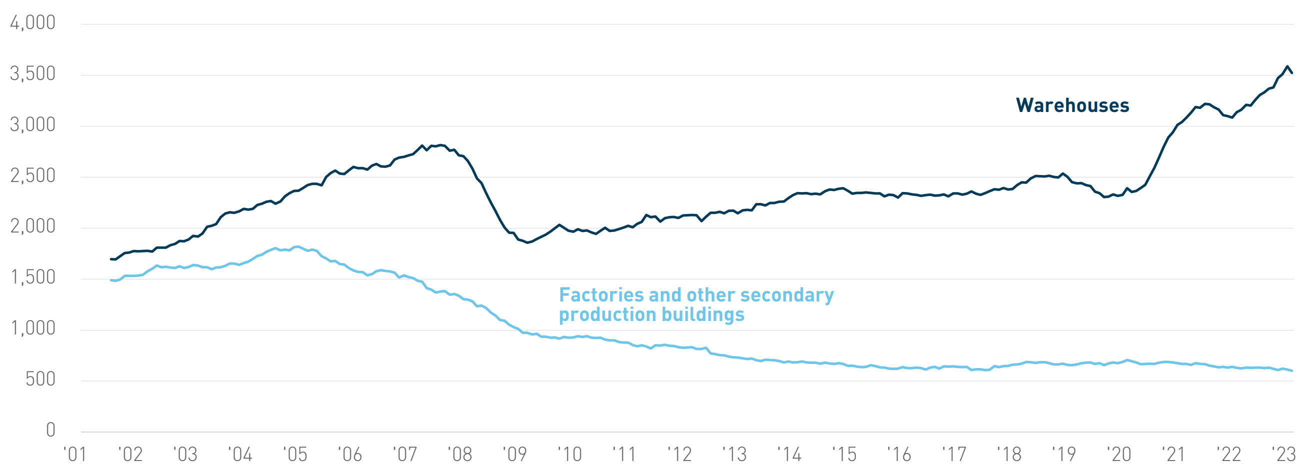
Many occupiers are already leveraging AI in their facilities, for example by using intelligent autonomous robots to store and pick items, or by calculating optimised routes for human workers trying to navigate thousands of products. Given the pre-existing utilisation of automation and AI, we don't foresee recent advancements driving major changes to occupier space requirements at the asset level. However, it may drive a proliferation of automation adoption, and a more rapid replacement of ageing stock which is not fit-for-purpose, for example due to inadequate slab strength or larger power requirements.

We expect the most significant implications for logistics and industrial assets will stem from improvements made in supply chain management. Demand forecasting, inventory requirements and transport routes can all be enhanced by AI's ability to process vast amounts of data across various formats in real-time and advise accordingly, enhancing resilience and service. This could lead to footprint rationalisation, whereby occupiers prioritise large, centralised warehouses combined with smaller urban logistics units in close proximity to customers, with less reliance on medium-sized, intermediate facilities as they can better predict demand. This type of model, which historically would have been challenging due to its complexity and inability to respond to local supply or demand shocks, could provide the scale and control benefits of a centralised hub, with the agility and speed-to-customer of last mile fulfilment.

An important byproduct of a more intelligent and efficient supply chain is cost reduction. The pandemic highlighted the shortcomings of global supply chains, however, most are still aligned to the lowest cost countries. If the cost of logistics falls, or efficiency improves significantly, this could alter the cost-risk trade-off and encourage more occupiers in developed economies to onshore a greater proportion of operations, boosting industrial real estate demand.

It is worth noting that 'industrial real estate' is a broad term. Not all occupier types will engage with AI in the same way or see the same outcomes. The strengths of AI suggest the biggest changes will be experienced by logistics-focused occupiers, managing the complex movement of materials and products across multiple markets at scale, particularly via standardised big-box warehouses. In contrast, light and medium industrial uses often incorporate both logistics and manufacturing elements. These occupier types, particularly those of smaller scale, may continue to be more reliant on human input and see little change in their operations. This part of the market continues to be more fragmented than 'big box' logistics and has witnessed less of a supply response, offering some compelling opportunities for investors.

Figure 4: number of Australian industrial building jobs approved (rolling 12 months)



Source: ABS; Cromwell Property Group Q1 2024

3. Retail

- Focus on attracting omnichannel occupiers that leverage the advantages of both physical and digital retail
- Stronger rental growth for assets which excel at either end of the spectrum – experiential leisure or last-mile convenience
- Capital expenditure likely to rise as assets strive to evolve in line with technological change

In retail, physical and digital channels continue to converge. Retail stores strive to match the low friction and 'endless aisle' online experience while e-commerce platforms endeavour to offer the product trial and social interactivity available in person. Outperformance is accruing to omnichannel retailers as a result[10].

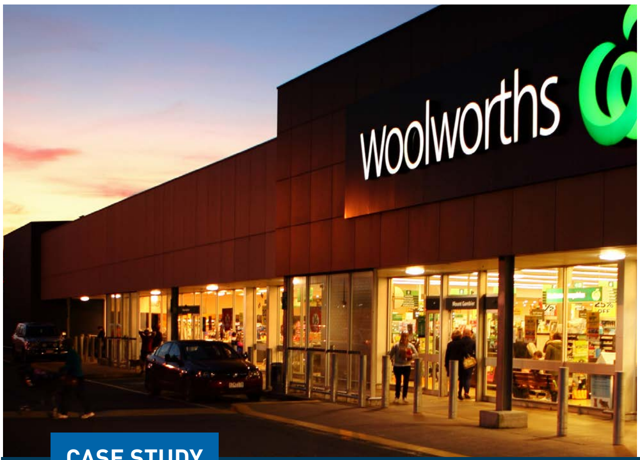
While not everything can be replicated, we expect AI to further narrow the gap between shopping channels. AI will improve e-commerce product discovery by delivering personalised recommendations and engaging conversations with digital shop assistants. Virtual product trial will improve as augmented reality and AI technology combine to showcase furniture in your own home, or a new outfit as you move around. In the physical world, friction will be reduced as checkout-free shopping becomes more ubiquitous and shoppers are guided individually through malls and shops.

Like the industrial market, we expect these shifts to lead to a bifurcation of retailer footprints and performance. The success of a physical retail store in an AI-enabled world will require having a genuine point of difference and leveraging inherent strengths which cannot be replicated online.

At the discretionary end of the market (i.e. major malls), this means providing tactile, immersive social experiences – being a leisure destination for people to connect, rather than just shop. Typically, larger assets with leading brands and the latest store formats, a night-time economy and higher foot traffic volumes are better placed to succeed in this experiential segment of the market.

For convenience-oriented centres, the value of an asset as a last-mile fulfilment node will become more important, in addition to its strength of connection to the local community. Sites that can double as a retail shopfront and local fulfilment centre, with proximity to customers, access to transport networks and a conducive physical structure and land envelope, will be preferred.

In this environment, middle-market assets that don't lead on an experiential or convenience basis and lack the community-centricity of a smaller asset may underperform. A key challenge for assets in general will be evolving the retail offer to match the pace of technological change – and effectively managing the resultant capital expenditure.



CASE STUDY

In Australia, major supermarket chain Woolworths has started opening micro fulfilment centres attached to stores. Called eStores, these sites have a normal retail shopfront accessible to the public, as well as a mini warehouse or dark store which can efficiently fulfil online orders for the surrounding catchment.

4. Enabling Infrastructure

- More data centres will be needed to handle the storage and processing demands of AI
- New markets may be created as 'mission critical' users leverage (edge) data centres in proximity to their operations
- Many current assets cannot offer the power and cooling required, necessitating capital expenditure or new development

While many of the non-traditional real estate sectors will be influenced by AI, data centres are clearly the most intertwined. The explosion of data storage and computing power required to leverage AI will likely mean greater demand for data centres. As low latency becomes more critical for some use cases, there could also be a shift towards edge data centres, potentially resulting in the creation of new markets closer to end users (e.g. mining in Port Hedland, Australia).

A key constraint in delivering the required new supply will be power. This is already an issue across the sector, and some markets have implemented soft or hard caps on development to protect the energy grid and maintain supply for other uses. These supply restrictions benefit existing asset owners, but limit those seeking to capitalise on AI tailwinds. The power and cooling requirements associated with AI exceed the capabilities of many current assets, meaning there will be heightened demand for new developments, skewed towards less crowded markets with more attractive energy costs and access[11].

10. 2023 Inside Australian Online Shopping (Australia Post, 2023)
11. Artificial Intelligence: Real Estate Revolution or Evolution? (JLL, 2023)

AI dangers and ethics

While AI holds the promise of transforming the real estate sector, it also brings forth associated risks and ethical considerations. As we embrace AI-driven innovations, it becomes crucial to navigate these challenges and ensure responsible adoption. Some of the key considerations are:

Data quality: Real estate AI systems heavily rely on data for decision-making. Poor data quality can lead to biased outcomes, incorrect predictions, and suboptimal recommendations.

Data validation: Rigorous data validation and cleaning processes are essential, and real estate professionals should be transparent about data sources and limitations.

Environmental Impact: AI uses a lot of energy, water, and heat. The power used to train and power AI can damage local habitats.

Security Risks: Vulnerabilities in AI systems may compromise sensitive real estate data.

Legal Risks: Care must be taken not to breach privacy, confidentiality or copyright responsibilities when collecting and using data. Organisations and investors also need to be cognisant of accountability and potential liability if relying on AI outputs.

Legislative Risks: Regulation is struggling to keep pace with rapid technology advancements and adoption, and current implementations of AI may draw regulatory scrutiny in the future.

Ethical Concerns: AI's recommendations may not consider impacts on multiple stakeholder groups holistically.

Education and a greater understanding of AI within the industry will help mitigate these risks and ease ethical concerns. Whilst formal education can teach how to use these tools efficiently, employee driven upskilling will also be beneficial. Teams should engage in regular practice and discussions to foster understanding, whilst organisations must acknowledge the potential benefits and risks when integrating AI alongside human professionals.

A paradigm shift

AI will reshape operational approaches, elevate customer experiences, improve occupier retention, and enable more intelligent asset selection. The type of space occupiers want will evolve, causing significant demand shifts. While greater demand for data centres is a likely and well-known outcome, there are also opportunities across the traditional commercial real estate sectors to target bifurcations in footprints and align to occupier trends. Investors must understand these changes to optimise allocation decisions and increase investment returns.

Grasping the intricacies of AI is an industry challenge. It is necessary to explore ways to harness its transformative capabilities, as well as weighing associated risks and ethical considerations. Education will be a key part of combatting this, alongside employee upskilling through applied learning. The ascent of AI is not a passing trend, but a paradigm shift that will define the future of real estate. ■

DIRECT PROPERTY UPDATE

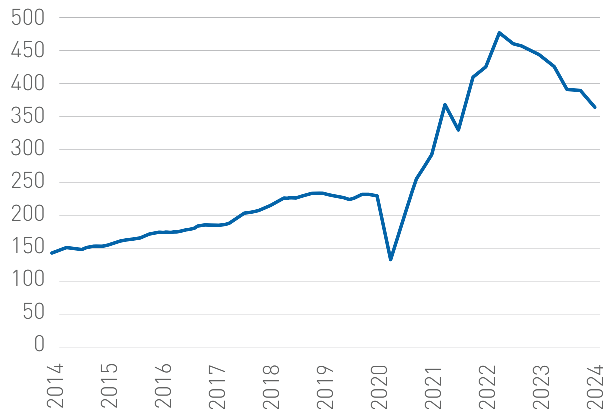
MARCH 2024 QUARTER

Economy

The disinflation cycle is in the 'last mile', where monetary policy is being finely calibrated and market expectations can move month-to-month with each new data release. This was reflected in the RBA's stance at the March Board meeting, where Australia's central bank arguably kept a foot in both the tightening and neutral camps. However, much of the market's speculation is focused on when rate cuts will occur, rather than the genuine possibility of further hikes. As at the end of March, financial markets and the major banks were forecasting the first cut to occur in the final quarter of 2024.

Annual inflation was stable at 3.4% in February (data released March), with rent and insurance inflation remaining stubbornly high, and goods inflation continuing to be moderate. However it is the tightness of the labour market (services inflation) which will likely be the key determinant of the CPI path moving forward. On this front, the unemployment rate fell from 4.1% in January to 3.7% in February[1]. The magnitude of the decrease is surprising at first glance, but less unexpected when you look at the detailed data which shows a shift in the seasonality of the labour market. It is now becoming the 'new norm' for workers to end a job in December and not start a new one until February. Labour data has also shown more

Job vacancies ('000s)



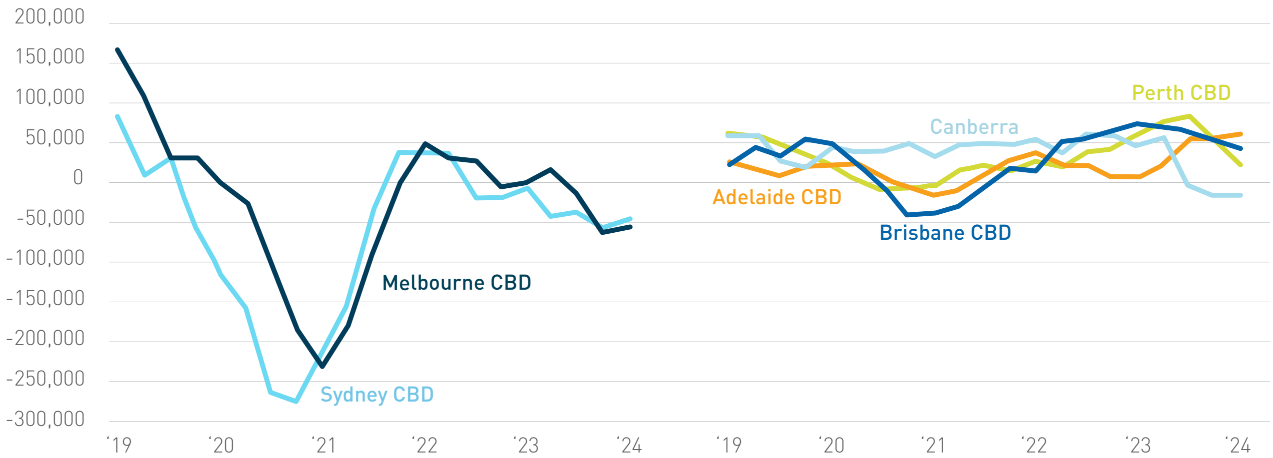
Source: ABS; Cromwell Data to Feb-24

volatility month-to-month since the pandemic. Looking at the recent trend rather than the latest monthly print in isolation shows the labour market is gradually softening, with underemployment (people wanting more hours) at its highest level since December 2021 and leading indicators such as job vacancies falling (albeit from high levels).

Retail sales provide another indication of a slowing economy. While Taylor Swift's recent tour boosted February spending on clothing, department stores and dining in New South Wales and Victoria (the locations of the concerts), annual nominal growth of only 1.6% was recorded[2]. Considering inflation is running above 3% and population growth of circa 2.5%, underlying consumption is very weak, showing that the cost of living is clearly biting. However, consensus expectations are that there should be some relief towards the end of the year as stage 3 tax cuts flow through, inflation continues to moderate, and interest rates potentially ease.

1. Labour Force, ABS
2. Retail Trade, ABS

Net absorption YoY (sqm)



Source: JLL (Mar-24); Cromwell

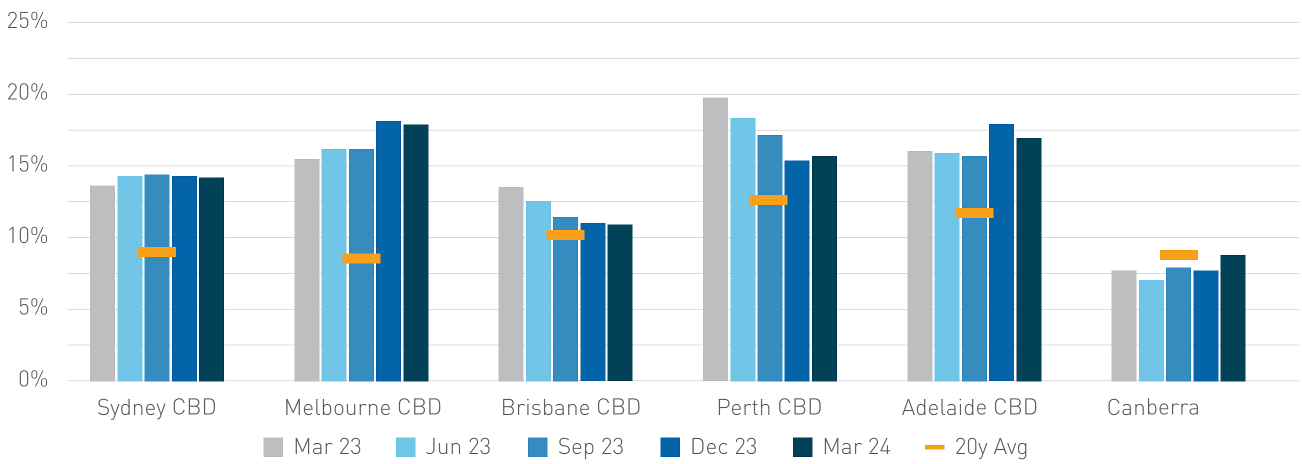
A part of the economy bucking the slowdown trend is housing; reflecting robust demand and constrained supply. CoreLogic's national Home Value Index recorded its 14th consecutive month of growth in March, rising to new record highs each month since November 2023[3]. There is a risk sustained house price growth may influence the RBA's view of the appropriate rate path, however as previously stated, the health of the labour market will likely be a much greater focus.

Office

The office market recorded a positive result in the March quarter. According to JLL Research, national CBD net absorption totalled just over +33,000 square metres (sqm), the strongest result since March 2023. Sydney was the top-performing market after three weak quarters prior, while Perth was the only major CBD market which saw demand decline as a result of softening in the non-Premium grades. On an annual basis, net demand is still strongest in the smaller markets of Adelaide, Brisbane, and Perth.

The national CBD vacancy rate was flat at 14.7%, with every CBD market except Perth and Canberra recording an improvement in supply-demand conditions. While the softening in Perth was due to both new supply and weaker demand, the increase in Canberra vacancy was entirely driven by the addition of new stock (completion of a refurbishment). Nationally, Premium assets saw the greatest improvement in vacancy rate.

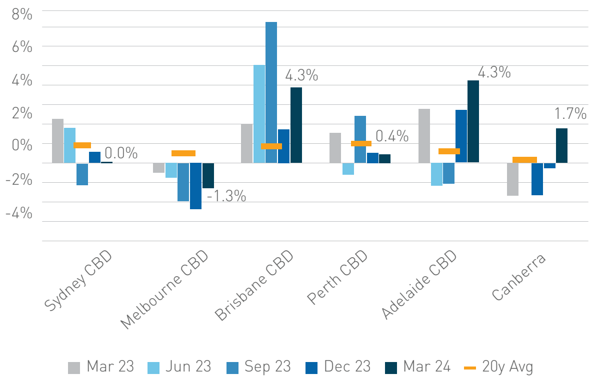
Total vacancy rate



Source: JLL (Mar-24); Cromwell

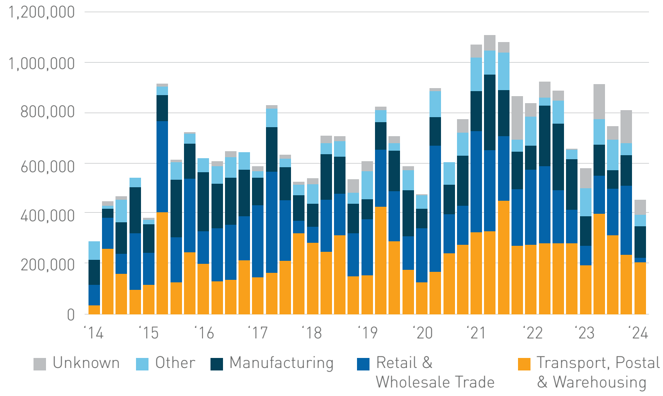
3. Hedonic Home Value Index, CoreLogic

Prime net effective rental growth (QoQ)



Source: JLL (Mar-24); Cromwell

Gross Occupier Take-up by Industry (sqm)



Sources: JLL (Mar-24)

Prime net face rent growth (+1.4%) accelerated further compared to the prior quarter (+0.9%), with the Brisbane CBD and Adelaide CBD the top performers. Prime incentives were largely flat (+0.1%), with half of the markets recording minor increases (Sydney, Melbourne, Perth), offset by the other half recording minor improvements. This meant on a net effective basis, Adelaide and Brisbane recorded the strongest growth, with Melbourne the only market to head backwards.

Reflecting the continued softness in conditions, transaction volume for the March quarter ($1.0 billion nationally) was roughly in line with the quarterly average over the prior 12 months but 64% lower than the Q1 average of the previous five years. Having said that, it was the highest number of sales seen since December 2022, highlighting that the smaller end of the market remains more active than larger lot sizes. The lack of transaction activity reflects the sharp increase in cost of capital seen over the past 24 months. This has resulted in national CBD prime average yields softening a further 29bps over the quarter. The national movement in yields may not be directly reflective of individual portfolios or assets, given differences in the timing of valuation processes.

Retail

While annual rental growth remains soft, it is consistent and broad-based. According to JLL Research, across large discretionary shopping centres (Regionals) gross rental growth averaged +0.1% for the quarter and +0.5% for the year, with every market recording a similar result. Growth across Sub-Regionals was slightly stronger at +0.2% and +0.8%, representing nine consecutive quarters of rental increases. Neighbourhood centres also recorded growth of +0.2% for the quarter, taking annual growth to +0.6%. Sydney and South-East Queensland, which have the highest Neighbourhood rents per sqm, recorded slightly weaker growth than the other markets.

It was a very slow quarter for retail property transactions, with volume totalling just over $500 million. No Regional assets changed hands for the first time since September 2022, dragging the dollar value of activity lower. It was quiet across the other centre types as well, with Sub-Regionals the most active relative to the five-year average. While yields did expand further over the quarter, it was to a lesser extent than office and industrial reflecting the higher starting point of retail yields prior to the hiking cycle.

Industrial

Gross occupier take-up softened materially over the quarter as inventory levels contracted and the broader economy slowed. Transport and Warehousing continues to comprise the greatest share of demand from an industry perspective, with Manufacturing take-up also remaining at a solid level. The big driver of the slowdown was Retail and Wholesale Trade, which saw demand fall by around 90% compared to the five-year average. This may reflect cautiousness from occupiers in the face of weak retail sales and declining global trade volumes, together with a 'pause' to expansion after substantial take-up during the pandemic. From a market perspective, Sydney saw the largest slowdown in demand, with South-East Queensland and Perth holding up well.

While rental growth is slowing from record highs, it remains well above trend, consistent with tight vacancy conditions. Melbourne saw the strongest growth, with Melbourne West the top-performing precinct nationally (+8.0% QoQ). Brisbane growth was robust in the infill Trade Coast

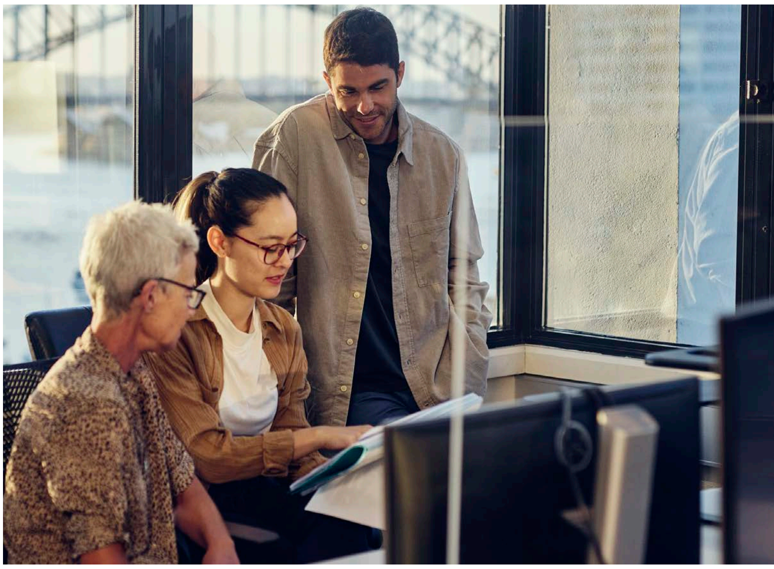
> Sydney saw the greatest degree of softening, but still has the tightest yields nationally.

precinct, while the land constrained South precinct was the top performer in Sydney. Rental growth in Sydney's Outer Central West, where land is more abundant, was not as strong.

Almost 500,000sqm of industrial supply was completed in the first quarter of 2024. A further two million sqm[4] of supply is slated for completion over the balance of the year, however construction delays may see timings slip. If all the projected supply is completed in 2024, it would represent the second highest level of completions in a calendar year behind 2022 (2.7m sqm). Projects are heavily concentrated in the land-rich, outer precincts, with 66% of expected 2024 supply to occur in just four precincts (of 22 nationally). Ongoing elevated levels of supply will likely lead to greater availability of space and a further softening of rental growth.

There was a rebound in transaction activity over the quarter, with dollar volumes exceeding the five-year average and hitting the highest level since September 20-22. Activity was dominated by Sydney, in particular ISPT and Unisuper's joint acquisition of a 280 hectare greenfield development site in Badgerys Creek. Consistent with other sectors, prime industrial yields expanded over the quarter along the East Coast, with the smaller markets of Adelaide and Perth unchanged. Sydney saw the greatest degree of softening, but still has the tightest yields nationally.

4. Projects with a status of Under Construction, Plans Approved, or Plans Submitted



Outlook

The global economy is slowing but at a relatively measured pace, engendering optimism that a "soft landing" can be achieved. Australia's economy is in a similar position, with inflation slowing but employment conditions remaining resilient. Markets are becoming more confident the rate hiking cycle is at or near its end, which should help ease uncertainty and improve liquidity for property later in the year.

While an economic slowdown is expected over 2024 and early 2025, a more significant contraction (i.e. recession) is looking less likely. Businesses will continue to review their space requirements as they adjust to hybrid working, though the balance between in-office versus remote is expected to shift back towards the office over 2024. Location continues to be an important driver of occupier preferences, combined with amenity and building quality (at a given price point). ■

How did Cromwell Funds Management fare in the first quarter?

With the Cromwell Direct Property Fund completely revalued externally in November and December 2023, no external revaluations were completed in the March quarter. With the revaluation process and half-year accounts released, the Fund reopened to receiving applications and distribution reinvestment (at a 5% discount) as at 25 March 2024.

The Fund continues to experience positive leasing outcomes, especially in its Brisbane based assets. The strategy to build quality speculative fitouts and improving amenity with third spaces has helped improve occupancy metrics, tenant engagement, and improving rental growth.

Both the Cromwell Riverpark Trust's Energex Asset (CRT) and Cromwell Trust 12's Dandenong asset (C12) had solar panels installed. The installation is awaiting grid approval, and the work will help maintain (for CRT) and obtain (for C12) a 6-star NABERs rating.

Past performance is not a reliable indicator of future performance.

Cromwell Funds Management Limited ACN 114 782 777 is the responsible entity of and issuer of units in the Cromwell Direct Property Fund ARSN 165 011 905. Before making an investment decision in relation to the Fund it is important that you read and consider the Product Disclosure Statement and Target Market Determination available from www.cromwell.com/dpf, by calling 1300 268 078 or emailing invest@cromwell.com.au.

LISTED MARKET UPDATE

MARCH 2024 QUARTER

Stuart Cartledge
Managing Director
Phoenix Portfolios

The S&P/ASX 300 A-REIT Accumulation Index continued its march higher in the first quarter of 2024, gaining 16.2%. Property stocks meaningfully outperformed broader equities in the quarter, with the S&P/ASX 300 Accumulation Index adding a lesser 5.4%. This outperformance was predominantly driven by the 33.6% return of Goodman Group (GMG), which is the largest component of the property index, with a weighting of approximately 36%. The median return of stocks in the property index was a lesser 6.2%. Of 33 stocks within the index, only five were outperformers.

During the quarter, companies under coverage reported financial results for the period ended 31 December 2023. In general (with some notable exceptions), financial results were marginally better than expectations, demonstrating the resilience of property income streams. Outlook statements tended to acknowledge uncertainty, as the future path of interest rates remains a key input into likely outcomes.

Retail property was one of the stronger subsectors in the March quarter. Results released in February's reporting season showed solid sales growth within shopping centres and even more impressive were the much-improved re-leasing spreads. Owner of Australian Westfield shopping centres, Scentre Group (SCG) led the way, gaining 16.2%, whilst foreign owner, Unibail-Rodamco-Westfield (URW) also moved sharply higher, adding 14.8%. Peer, Vicinity Centres (VCX) underperformed the index, but performed strongly, up 7.3%. Owners of smaller neighbourhood shopping centres didn't keep up with their larger competitors, with Region Group (RGN) lifting 5.8% and Charter Hall Retail REIT (CQR) finishing the quarter 2.8% higher.

Once again it was office property that was the laggard as elevated vacancy and incentives continue to create concern about the prospects of office ownership. Dexus (DXS) materially underperformed the index, up 3.0%. Centuria Office REIT (COF) was weaker still, adding only 1.9%, whilst GDI Property Group (GDI) lost 5.4%. Large capitalisation office owner GPT Group (GPT) also had a tough quarter, losing 1.5%.

Returns of property fund managers were mixed through the quarter. As previously discussed, it was GMG that dominated all comers. HMC Capital Limited (HMC) outperformed, finishing the quarter 17.7% higher, but much of its performance was tied to non-property funds management targets. Charter Hall Group (CHC) also performed solidly, gaining 14.2%. Centuria Capital Group (CNI) couldn't keep up with peers, losing 0.3% whilst Elanor Investors Group (ENN) gave up 12.2%.

For some time, we have highlighted the disconnection between private real estate valuations and public real estate equity share prices. It is inevitable, given time, that this gap closes. This can occur through private market devaluations, share price appreciation or M&A transactions serving to close the gap (or some combination of those options). During the quarter we have seen a combination of all three, with valuations moving marginally lower, share prices moving meaningfully higher and we have also begun to see some M&A activity. Each of Newmark Property Group (NPR), Eureka Group Holdings (EGH) and Hotel Property Investments (HPI) received takeover bids or had strategic parties acquire large stakes in the companies. Each of these companies were amongst the few outperformers in the quarter. Should small capitalisation securities continue to underperform, we would expect M&A activity to be an ongoing feature of the market.

Market outlook

The listed property sector is in good shape and provides investors with the opportunity to gain exposure to high quality commercial real estate at a meaningful discount to independently assessed values. While share market volatility may be uncomfortable at times, the offset is liquidity, enabling investors to rebalance portfolios without the risk of being trapped in illiquid vehicles.

Rising interest rates have been a headwind for many asset classes, with property, both listed and unlisted, a particularly interest rate sensitive sector. The February reporting season saw stocks providing solid updates, with cautiously optimistic outlooks, based on the assumption that interest rates may have peaked. Long term valuations are driven by "normalised" interest costs, meaning the impact of short term hedges maturing is mostly immaterial. Should the forecast decline in interest rates eventuate, recent headwinds may dissipate and possibly reverse.

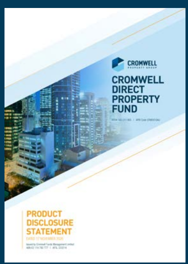
The industrial sub-sector continues to be the most sought after, given the tailwinds of e-commerce growth, the potential onshoring of key manufacturing categories and the decision by many corporates to build some redundancy into supply chains to cope with current disruptions. All of these factors are contributing to ongoing demand for industrial space, which is evident by rapidly accelerating market rents and vacancy rates at historic lows of around 1% in many markets.

We remain cognisant of the structural changes occurring in the retail sector with the growing penetration of online sales and the greater importance of experiential offering inside malls. Recent performance of shopping centre owners has however been strong, with consumers showing resilience. It is interesting to note the juxtaposition of very high retail sales figures despite very low levels of consumer confidence, no doubt impacted by rising costs of living. Importantly, we are also now seeing positive re-leasing spreads in shopping centres, indicating strengthening demand from retail tenants.

The jury is still out on exactly how tenants will use office space moving forward, but demand for good quality well located space remains. Leasing activity is beginning to pick up, and there has also been some transactional activity, albeit at prices typically at discounts to book values. Incentives on new leases remain elevated.

We expect to see further downside to asset values in office markets, but elsewhere expect market rent growth to largely offset cap rate expansion, particularly in industrial assets. Listed pricing provides a buffer to such movements.

OPEN FOR INVESTMENT



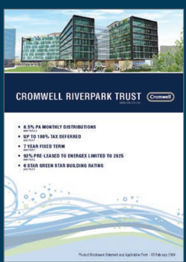
CROMWELL DIRECT PROPERTY FUND

CROMWELL PHOENIX PROPERTY SECURITIES FUND

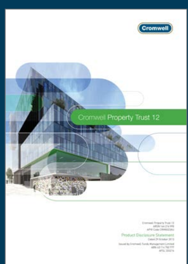
CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

CLOSED TO INVESTMENT

The closed property trusts below are only accessible via investment in the Cromwell Direct Property Fund



CROMWELL RIVERPARK TRUST



CROMWELL PROPERTY TRUST 12

CROMWELL PHOENIX OPPORTUNITIES FUND (CLOSED)

QUARTERLY
FUND REPORTS

Investment Report to 31 March 2024

Any investment, including an investment in Cromwell-managed Funds, is subject to risk. If a risk eventuates, it may result in reduced distributions and/or a loss of some or all of the capital value of your investment. See the disclosure document issued for the Fund for examples of key risks. Capital growth, distributions and tax consequences cannot be guaranteed.

Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 (CFM) has prepared these reports and is the responsible entity of, and the issuer of units in, the funds and trusts referred to in these reports (the Funds). In making an investment decision in relation to a Fund, it is important that you read the disclosure document for that Fund. The report for each Fund refers to the disclosure document (product disclosure statement and any supplementary product disclosure statement) and if applicable the target market determination (TMD) issued for that Fund. The disclosure document and TMD for each Fund is issued by CFM and is available from www.cromwell.com.au or by calling Cromwell's Investor Services Team on 1300 268 078. Not all of the Funds are open for investment. Applications for units in open Funds can only be made on application forms accompanying the disclosure document for the Fund.

These reports have been prepared without taking into account your objectives, financial situation or needs. Before making an investment decision, you should consider the report and the disclosure document for the particular Fund and assess, with or without your financial or tax adviser, whether the Fund fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Forward-looking statements (provided here as a general guide only) and the performance of a Fund are subject to the risks and assumptions set out in its disclosure document. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in these reports. If you acquire units in a Fund, CFM and certain related parties may receive fees from the Fund and these fees are disclosed in the disclosure document for that Fund. Performance data for Cromwell-managed Funds are calculated based on unit prices for each Fund, which may differ from underlying net asset values. Performance data for periods longer than one year have been annualised. Distribution rates and yields are based on the 31 March 2024 unit price and are subject to change. The proportion of distributions that are tax deferred will depend on a number of factors (for example, building amortisation and depreciation of plant and equipment) and may vary from year to year. Deferred tax may be payable, in whole or in part, on the sale, transfer or redemption of units in the Fund.

OPEN FOR INVESTMENT

CROMWELL DIRECT PROPERTY FUND

Investment Report to 31 March 2024

The Fund's investment portfolio provides exposure to unlisted, direct property throughout Australia. The Fund aims to provide a monthly tax-advantaged income stream and future capital growth potential.

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/dpf

KEY STATISTICS

as at 31 March 2024

Status	**OPEN**[1]
Unit Price	**$0.9074**[2]
Distribution Yield	**5.20% p.a.**[3]
WALE	**4.2 years**[4]

PERFORMANCE

	1 Year	3 Years	5 Years	Inception (Aug-13)
Fund Performance After fees & costs	(24.0%)	(4.5%)	(0.7%)	5.0%
Benchmark PCA / MSCI Australia Unlisted Retail Quarterly Property Fund Index (Unfrozen)	(13.2%)	3.4%	7.1%	13.5%
Excess Returns After fees & costs	(10.8%)	(7.9%)	(7.8%)	(8.5%)

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- The Fund finalised its December half-year audited financials and recommenced accepting applications, and offering the Distribution Reinvestment Plan (at a 5% discount), from 25 March 2024.
- The portfolio continues to experience positive leasing outcomes, with its current weighted average lease expiry (WALE) being 4.2 years and occupancy of 95.5% as at 31 March 2024.
- Since inception, the Fund has delivered an annualised return of 5.0% per annum with 12-month performance of -24.0%.

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Withdrawals are limited and cannot be guaranteed. Please note that as per the Update to Cromwell Direct Property Fund dated 29 September 2023, DPF ceased to offer redemptions from 1 October 2023, see Continuous Disclosure Notices for more details. For further information, see Section 7.4 of the PDS.
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/dpf for latest pricing.
3. Based on current distributions of 4.75 cents per unit p.a. as at 31 March 2024.
4. Figures as at 31 March 2024. Calculated on a 'look-through' gross passing income basis.

See **www.cromwell.com.au/dpf** for further information.

OPEN FOR INVESTMENT

CROMWELL PHOENIX PROPERTY SECURITIES FUND ORDINARY UNITS

Investment Report to 31 March 2024

The Fund is one of the top performing property securities funds in Australia, with underlying investments chosen by Phoenix Portfolios using a 'best ideas' approach.

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/psf

KEY STATISTICS

as at 31 March 2024

Status	**OPEN**[1]
Unit Price	**$1.2713**[2]
Distribution Yield	**N/A**

PERFORMANCE

	1 Year	3 years	5 years	10 years	Inception (Apr-08)
Fund Performance After fees & costs	22.6%	9.3%	5.4%	10.0%	8.3%
Benchmark S&P/ASX 300 A-REIT Accumulation Index	35.4%	11.5%	6.7%	10.7%	5.7%
Excess Returns After fees & costs	(12.8%)	(2.2%)	(1.3%)	(0.7%)	2.6%

Past performance is not a reliable indicator of future performance.

TOP TEN STOCK HOLDINGS[3]

ABACUS GROUP
CENTURIA INDUSTRIAL REIT
CHARTER HALL GROUP LIMITED
GENERAL PROPERTY TRUST
GOODMAN GROUP
HOTEL PROPERTY INVESTMENTS
MIRVAC GROUP
PEET LIMITED
SCENTRE GROUP
STOCKLAND LTD

FUND UPDATE

- Since inception in April 2008, the Fund has delivered an annualised return, net of fees, of 8.3%, outperforming the S&P/ASX 300 A-REIT Accumulation Index by nearly 2.5%.
- The S&P/ASX 300 A-REIT Accumulation Index shot higher over the quarter, adding 16.2%.
- Dominating performance, Goodman Group closed 33.6% higher. The median property stock rose 6.2%.
- The Fund added value in a relative sense, by not holding some of the weaker stocks, including Dexus and Vicinity Centres.
- While Goodman Group remains a significant position in the Fund, the benchmark holding is much bigger, so was a material detractor to relative performance.

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 (Phoenix) is the investment manager of the Fund. None of CFM, Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the Product Disclosure Statement dated 15 November 2023 (PDS).
2. Unit price as at 31 March 2024. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/psf for latest pricing.
3. As at 31 March 2024. Positions in the Fund are subject to change.

See **www.cromwell.com.au/psf** for further information.

OPEN FOR INVESTMENT

CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

Investment Report to 31 March 2024

The Fund invests in a portfolio of internationally listed, predominantly small capitalisation securities, which at the time of their acquisition, are considered to be trading at discounts to their observable net asset values (NAVs).

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/gof

KEY STATISTICS

as at 31 March 2024

Status	**OPEN**[1]
Unit Price	**$1.3966**[2]
Distributions	**Annually**

PERFORMANCE

	6 Months	1 Year	2 Years	3 Years	Inception (Dec-19)
Fund Performance After fees & costs	13.9%	15.7%	13.7%	9.3%	11.6%
Benchmark Vanguard Total World Stock ETF	18.6%	26.2%	14.6%	12.3%	12.0%
Benchmark MSCI World Microcap AUD	11.7%	10.7%	2.6%	(1.8%)	6.0%

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- Since inception in December 2019, the Fund has delivered an annualised return of 11.6% net of fees.
- The Fund delivered a net return of 7.7% over the March 2024 quarter.
- Contributing positively to performance over the quarter were positions in:
  - Sun Corporation (TSE:6736)
  - Keck Seng Investments (SEHK:184)
  - Capstone Copper Corp (TSX:CS)
- Detracting from performance over the quarter were positions in:
  - Spirit Airlines (NYSE:SAVE)
  - Osaka Steel (TSE:5449)
  - Philly Shipyards (OB:PHLY)

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the Product Disclosure Statement dated 26 October 2021 (PDS).
2. Unit prices are calculated monthly. See the PDS for further information and www.cromwell.com.au/gof for latest pricing.

See **www.cromwell.com.au/gof** for further information.

CLOSED TO INVESTMENT

CROMWELL PHOENIX OPPORTUNITIES FUND

Investment Report to 31 March 2024

This value orientated fund invests in ASX-listed microcaps using Phoenix Portfolios' 'best ideas' approach and aims to find hidden value in under-researched stocks.

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/pof

KEY STATISTICS

as at 31 March 2024

Status	**CLOSED**
Unit Price	**$2.2475**[1]
Distributions	**Quarterly**

PERFORMANCE

	1 Year	3 years	5 years	Inception (Dec-11)
Fund Performance After fees & costs, inclusive of the value of franking credits	11.0%	12.3%	15.8%	17.7%
Fund Performance After fees & costs, excluding the value of franking credits	9.1%	9.7%	13.5%	15.8%
Benchmark S&P/ASX Small Ordinaries Index	13.8%	2.7%	5.4%	5.8%

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- Since inception in December 2011, the Fund has delivered an annualised return of 17.7% net of fees and inclusive of franking credits.
- The Fund delivered a return of 1.4% net of fees and inclusive of franking credits over the March 2024 quarter, underperforming the small capitalisation indices which returned 7.5%.
- Positive contributions to the Fund's performance came from positions in MMA Offshore and Schaffer Corporation.
- Negative contributions to the Fund's performance came from positions in Fleetwood, Hillgrove Resources & Ariadne.

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1. Unit price as at 31 March 2024. Unit prices are calculated monthly. See the PDS dated 29 September 2017 for further information and www.cromwell.com.au/pof for latest pricing.

See **www.cromwell.com.au/pof** for further information.

CLOSED TO INVESTMENT

CROMWELL RIVERPARK TRUST

Investment Report to 31 March 2024

This was the first of Cromwell's next generation 'back to basics' single property trusts and served as a bellwether for the type of investments being sought in an uncertain economic environment.

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/crt

KEY STATISTICS

as at 31 March 2024

Status	**CLOSED**
Unit Price	**$1.8300**
Distribution	**6.71% p.a.**
WALE	**6.1 years[1]**

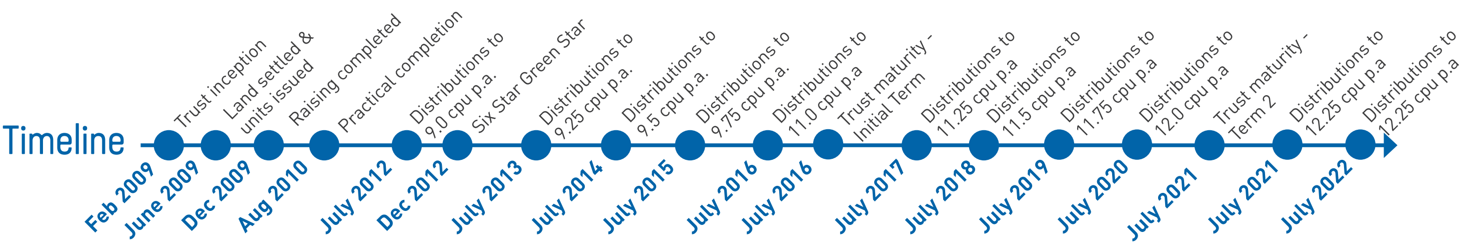
PERFORMANCE

	1 Year	3 Years	5 Years	7 Years	Inception (July-09)
Trust Performance After fees & costs	(11.3%)	1.4%	4.3%	7.4%	11.7%

Past performance is not a reliable indicator of future performance.

TRUST UPDATE

- Management continues to assess market conditions in order to achieve an optimal exit result.
- The asset remains 100% occupied, with a weighted average lease expiry of 6.1 years as at 31 March 2024.
- Approximately 200 solar panels have been installed which will generate 100kw of power and help maintain the current 6-star NABERS rating.
- The Trust's unit price was $1.8300 as at 31 March 2024.
- Since inception, the Trust has delivered an annualised return of 11.7% per annum.



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. As at 31 March 2024. Calculated by gross income.
2. Changes to MSCI's methodology for Benchmark performance reporting has resulted in an index start date that falls post the inception date of the Trust, consequently Benchmark comparison data is no longer available.

See the Product Disclosure Statement dated 25 February 2009 (PDS) and the Supplementary Product Disclosure Statement dated 30 June 2009 (SPDS).

See **www.cromwell.com.au/crt** for further information.

CLOSED TO INVESTMENT

CROMWELL PROPERTY TRUST 12

Investment Report to 31 March 2024

This Trust replicates many features of Cromwell's other unlisted property trusts, including the seven-year investment period, innovative construction funding structure and long lease term. Now in its second term, the Trust is underpinned by a single asset located at 19 George Street, Dandenong.

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/c12

KEY STATISTICS

as at 31 March 2024

Status	**CLOSED**
Unit Price	**$0.8600**
Distribution Yield	**7.30% p.a.**
WALE	**6.2 years[2]**

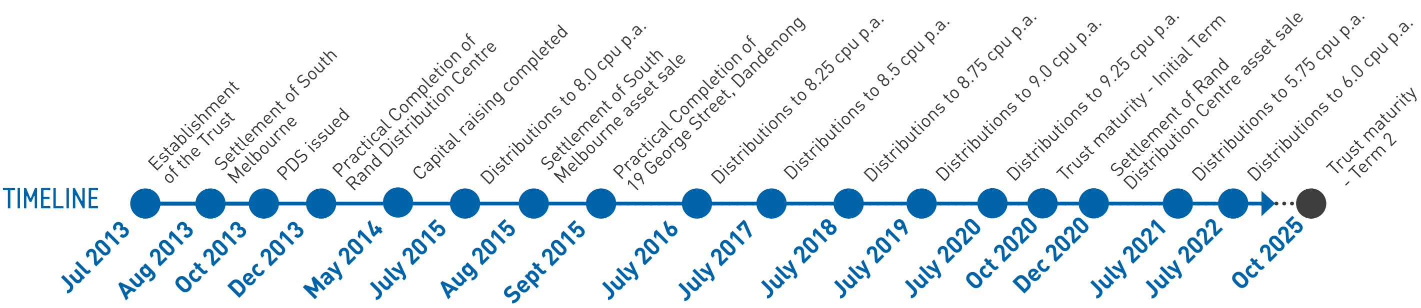
PERFORMANCE

	1 Year	3 Years	5 Years	7 Years	Inception (Oct-13)
Trust Performance After fees & costs	(22.6%)	2.9%	7.6%	8.3%	11.0%
Benchmark PCA / MSCI Australia Unlisted Retail Quarterly Property Fund Index (Unfrozen)	(13.2%)	3.4%	7.1%	9.6%	13.4%
Excess Returns After fees and costs	(9.4%)	(0.5%)	0.5%	(1.3%)	(2.4%)

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- The asset remains 99.3% occupied, with a weighted average lease expiry of 6.2 years as at 31 March 2024.
- Approximately 200 solar panels have been installed and will generate 100kw of power. Solar will improve the asset's current 5.5-Star Energy NABERS rating to 6 Star.
- The Trust's unit price was $0.8600 as at 31 March 2024.
- Since inception, the Trust has delivered an annualised return of 11.0% per annum.



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Based on valuations for 19 George Street, Dandenong as at 31 March 2024.
2. As at 31 March 2024. Calculated by gross income.

See the Product Disclosure Statement dated 29 October 2013 (PDS).

See **www.cromwell.com.au/c12** for further information.

CROMWELL PROPERTY GROUP QUARTERLY SNAPSHOT

Cromwell Property Group (ASX:CMW) is a real estate investor and fund manager with operations on three continents and a global investor base. As at 31 December 2023, Cromwell had a market capitalisation of $1.1 billion, an Australian investment portfolio valued at $2.4 billion and total assets under management of $11.4 billion across Australia, New Zealand and Europe.

ASX announcements update - see www.asx.com.au (ASX:CMW)

8 January 2024	Appointment of Chief Financial Officer
15 January 2024	Valuations Update
2 February 2024	Details of HY24 Results Briefing
29 February 2024	Appendix 4D and Half Year Financial Report
29 February 2024	HY24 Results Announcement
29 February 2024	HY24 Results Presentation
21 March 2024	Dividend/Distribution - CMW

Key Events Calendar

Friday 17 May	March 2024 quarter distribution payment date
Thursday 27 June	June 2024 quarter distribution ex date (tentative)
Friday 28 June	June 2024 quarter distribution record date (tentative)
Friday 16 August	June 2024 quarter distribution payment date (tentative)
Thursday 29 August	FY24 results announcement (tentative)
Friday 27 September	September 2024 quarter distribution ex date (tentative)
Monday 30 September	September 2024 quarter distribution record date (tentative)
Friday 15 November	September 2024 quarter distribution payment date (tentative)
Wednesday 20 November	2024 Annual General Meeting (tentative)
Monday 30 December	December 2024 quarter distribution ex date (tentative)
Tuesday 31 December	December 2024 quarter distribution record date (tentative)

For further information, speak to your broker or visit www.cromwellpropertygroup.com

Cromwell Property Securities Limited ABN 11 079 147 809 AFSL 238052 (CPSL) has prepared this report and is the responsible entity of the Cromwell Diversified Property Trust ARSN 102 982 598 (DPT). This report is issued by CPSL as responsible entity of DPT and on behalf of Cromwell Corporation Limited ABN 44 001 056 980. This report has been prepared without taking into account your objectives, financial situation or needs. In making an investment decision, you should consider all available information and assess, with or without your financial or tax adviser, whether the product fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Forward-looking statements in this report are provided as a general guide only. These statements are not guarantees of future performance. Actual results could differ materially from those expressed. CPSL does receive fees as responsible entity of DPT.

CONTACT US
WITH ANY QUESTIONS

For the answer to any questions regarding Cromwell and our funds, please contact your financial adviser, broker or Cromwell's Investor Services Team directly.

DIRECT INVESTORS CONTACT:

1300 268 078 (within Australia) +61 73225 7777 (outside Australia)

invest@cromwell.com.au

www.cromwell.com.au

Jonathan Bredin
Relationship Manager

jonathan.bredin@cromwell.com.au

FINANCIAL ADVISERS CONTACT:

Daniel Thomas
National Manager - Adviser Distribution (VIC, SA, WA, TAS)

+61 438 046 893 | daniel.thomas@cromwell.com.au

Narelle Avery
State Manager - (QLD, NSW, ACT, NT

+61 467 284 727 | narelle.avery@cromwell.com.au

INSTITUTIONAL INVESTORS CONTACT:

Libby Langtry
Investor Relations Manager

+61 432 753 926 | libby.langtry@cromwell.com.au

Contact

1300 268 078 (within Australia)
+61 7 3225 7777 (outside Australia)
invest@cromwell.com.au
www.cromwell.com.au

Brisbane

T: +61 7 3225 7777
A: Level 10
100 Creek St
Brisbane QLD 4000
Australia

Sydney

T: +61 2 8278 3610
A: Suite 2, Level 14
167 Macquarie St
Sydney NSW 2000
Australia

Amsterdam

T: +31 20 574 5800
A: Jachthavenweg 124
Amsterdam, 1081 KJ
The Netherlands

London

T: +44 20 7659 6772
A: 1st Floor
7 Seymour St
London, W1H 7JW

Singapore (CEREIT)

T: +61 3 9670 7313
A: 50 Collyer Quay
#07-02 OUE
Bayfront
Singapore 049321

CROMWELL
PROPERTY GROUP