



DUKE STREET LIMITED PARTNERSHIP

Quarterly Report – June 2022

HIGHLIGHTS FOR THE QUARTER

Property Update

Duke Street has officially received Code Compliance. The warehouse is currently full of inventory from a local supplier of promotional products and business gifts under a short-term lease. Hilton's property manager is working hard to secure longer-term storage and logistics contracts.

Interest Rates

In this rising interest rate environment, we are constantly assessing the impact the cost of debt is having on the cash surplus and your pre-tax cash distributions.

We have seen wholesale 1 – 5 year interest rates increase as financial markets have anticipated, and responded to, increases in the Official Cash Rate (OCR). The OCR has increased from 0.25% in April 2021 to 2.5% as at July 2022. Fixed interest rates have typically been sitting 1.75 – 2.0% higher than floating rates, with the 2 year fixed rate now at 7.0%. The scheme's present floating rate is 4.96% p.a. (effective 5 July) and is reviewed by the bank on a monthly basis.

We are frequently being asked by investors if we have considered fixing interest rates. This strategy does provide certainty around the cost of funds, however in some circumstances, it may not be the best strategy. All major lenders have built substantial increases into their fixed rates and the external advice we have been given to date is to continue with a floating strategy.

Quarry has also undertaken our own analysis comparing floating and fixed rates, with the primary consideration to preserve cash. We conducted an exercise comparing interest paid on a fixed rate of 7.0% over two years with monthly increases on a floating basis topping at a rate of 7.1% in one scenario and 7.6% in another. In this exercise, a floating rate strategy provides the scheme with over \$90,000 in cash savings at the 7.1% level and over \$51,000 at the 7.6% level.

Distributions

As discussed at the recent Annual General Meeting on 20 July, Quarry has made the decision to reduce the pre-tax cash distribution rate to 5.5% effective 1 October 2022. This reduction will show in your November distribution payment.

Syndex – Investor Portal

We are aware that many of you have signed up to use the investor portal to access scheme documents and view your investments. We hope you are enjoying this feature. Syndex has recently notified us that an upgrade which improves the look and the function of the portal will soon be implemented.

THE SYNDICATE – as at 30 June 2022

Structure:	Limited Partnership
Scheme Type:	Wholesale
Commencement:	28 March 2021
Capital Structure:	
No. of interests:	404
Issue Price:	\$25,000 each
Investor Capital:	\$10,100,000
Distribution Rate:	7.0% p.a.
No. of Investors:	63

THE PROPERTY

Address:	17 Duke St, Sawyers Bay, Dunedin
Tenant:	Hilton Haulage LP
Use:	Warehouse
Land area:	13,334 sqm
Floor area:	7,700 sqm
WALT:	11.4 years

THE NUMBERS

Property value:	\$17.4m
Bank Debt:	\$7.5m
Lender:	ASB
LVR:	43.1%
Interest rate:	4.58% p.a.

THE PEOPLE

David Kitson (Managing Director)	021 722 231
Michael Kohing (Chief Financial Officer)	021 532628
Jacque Musson (Investor Liaison Manager)	03 345 8842
Sam Kitson (Marketing & Distribution Manager)	021 066 9206

