



QUARRY CAPITAL

ARTEMIS PROPERTY SCHEME

Quarterly Report – June 2022

HIGHLIGHTS FOR THE QUARTER

Property Update



Winter is the time when the centres are tested by the elements, and we have certainly had our fair share of inclement weather this year. The properties have held up well, with all 14 centres continuing to be maintained to a high standard and any maintenance issues promptly sorted. A larger capex project to resurface and remark the carpark at the Porirua centre (above) has recently been completed.

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 around 7.0%. The 3 year fixed rate sits at about 7.3%. The scheme's average floating rate at 30 June was 4.63% and as at 31 July is 5.07%.

We are frequently asked by investors if we have considered fixing interest rates, which we have discussed at length with the Advisory Group. 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.

THE SYNDICATE – as at 30 June 2022

Structure:	Proportionate Ownership Scheme
Scheme Type:	Wholesale
Commencement:	17 September 2015
Capital Structure:	
No. of interests:	2,633
Issue Price:	\$10,000 each
Investor Capital:	\$26,330,000
Distribution Rate:	7.0% p.a.
No. of Investors:	64

THE PROPERTIES

Number of properties:	14
Locations:	Masterton, Porirua, Tawa, Blenheim, Richmond, Nelson, Westport, Christchurch (5), Rolleston, Invercargill
Tenants:	Evolve Group (8) Provincial Education Group (2) Best Start Group (1), Grow Canterbury (3)
Use:	Early childcare centres
WALT:	9 years

THE NUMBERS

Property value:	\$53.68 m
Bank Debt:	\$21.72 m
Lender:	ASB Bank
LVR:	40.5 %
Interest rates:	4.58% - 4.66% p.a.
Repayments:	4x loans Interest only, 1 loan repaying principal of \$100,000 p.a. Rates on floating with 1 month reviews

THE PEOPLE

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We have conducted an exercise comparing interest paid on a fixed rate over two and three years with monthly increases on a floating basis topping at a rate of 7.37% (two year) and 7.56% (three year). Based on these projections, a floating rate strategy provides the scheme with over \$330,000 in cash savings when compared to a two year fixed rate (7.0%), and over \$400,000 when compared to a 3 year fixed rate (7.3%).

Rent Reviews

Annual rent reviews are due on 11 of the 14 properties within the next 6 months. 10 of these properties (8 Evolve centres and 2 Provincial) are indexed to the CPI and we have forecast a 7.0% rent increase at these properties.

Distribution Rate

As discussed at the recent Annual General Meeting on 2 August, Quarry has made the decision to reduce the pre-tax cash distribution rate to 5.5% effective 1 October 2022 to preserve cash during this period of rising interest cost. This reduction will show in your November distribution payment.

Syndex – Investor Portal

syndex.

Many of you have signed up to use the investor portal to view your investments and access scheme documents. 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.

Advisory Group

The Advisory Group meet quarterly to discuss scheme strategy, financials, capital expenditure projects, repairs and maintenance projects, and overall scheme management. Discussions are always robust, and we are delighted with the value that they provide to both the management group and the scheme investors.

Should any investor like to contact an AG member, they have agreed to have their contact details provided. They are:

Investor / AG member	Email
Athol Stephens	athol.stephens@gmail.com
Valerie Jones	valeriefjones@hotmail.com
Tony Gray	tgray@xtra.co.nz
Ron Noordijk	ron.noordijk@gmail.com

Ongoing Customer Due Diligence

As part of our requirements under the AML/CFT Act we continue to conduct Ongoing Customer Due Diligence on all investors. You may receive a request from us asking for you to update the information we currently hold on file.

