

MARKET UPDATE

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Folkestone Investment Management Limited (“FIML”) as Responsible Entity of Folkestone Education Trust (“FET”) (ASX: FET) is pleased to provide Unitholders with an update regarding the Trust’s recent activities.

ACQUISITIONS & DEVELOPMENT PIPELINE

Since 1 September 2014, FET has entered into a further six agreements to acquire development sites to be constructed as early learning properties. These centres, upon completion, are expected to have an end value of approximately \$30.8 million. These centres add to those already announced as part of the FET pipeline and take the total current pipeline to 14 sites with an end value of approximately \$65.7 million.

A summary of FET’s pipeline, inclusive of existing centre acquisitions, is as follows:

Acquisition Type	No.	Rent \$m ¹	Cost \$m
New Development Sites	6	2.3	30.7
Existing Development Sites	8	2.8	35.0
Total Development Sites	14	5.1	65.7
Existing Centre Acquisitions	1	0.4	5.4
Total Acquisitions	15	5.5	71.1

¹Rent on completion

FET’s recent site acquisitions are in Camberwell, Hawthorn and Armstrong Creek in Victoria, Frenchs Forest and North Manly in NSW and Nedlands in WA. The sites conform to FET’s stated strategy of selecting only quality locations with high underlying demand and proven early learning operators, backed by FET standard leases. The developments will be funded on a fund-through basis with completions expected through to December 2016.

The minimum initial term of the new development site leases is either 15 or 20 years. The new leases are triple net in nature, unless prohibited by tenancy laws. Rent increases are annual to a fixed amount of 3.25% or CPI and will provide FET with predictable rental growth over time. No incentives are provided and FET’s additional income will be truly net effective.

FET also settled the acquisition of an existing centre at Gungahlin, ACT in October. The centre, located in Canberra’s growth corridor was purchased on a yield of 8.03%. Collectively, the average yield on cost of the development pipeline upon completion and the existing centre purchase is 7.78%. This excludes the higher yielding site rent payable during the development phase.

Collectively, FET’s pipeline, when complete, is expected to increase the value of FET’s investment properties by approximately 15% based on value at 30 June 2014.

Incorporating the most recent acquisitions, FET’s development and acquisition pipeline is now expected to add approximately \$5.5m of net revenue (up 13.4%) to FET’s lease income, upon completion. The acquisitions are forecast to be accretive to FET’s future earnings and distributions.



Negotiations with other site vendors are progressing and we are confident that FET's pipeline of development opportunities will continue, providing FET with sound opportunities to increase earnings and enhance the quality of the property portfolio.

The pipeline increases the Trust's exposure to high demand areas for early learning services and quality real estate in prime Sydney, Melbourne and Perth locations, further diversifying the portfolio. The transactions add to FET's weighted average lease expiry profile as well as provide the benefits of introducing quality new properties to the portfolio.

The acquisition and development pipeline is funded from three sources:

- capital recycling (see below);
- retention of cash distributions through the Distribution Reinvestment Plan; and
- utilisation of existing capacity within FET's debt facility.

The combination of these sources will ensure that FET maintains its adherence to its target loan-to-value ratio of 30%-40%.

CAPITAL RECYCLING

As previously advised, part of FET's capital management plan includes the sale of a small number of investment properties.

FET has sold eight properties for the half year period totalling \$9.33 million, of which three have settled (\$3.6m), with the balance settling in the second half of FY15. Inclusive of sales that occurred immediately prior to 30 June 2014 and which settled in the current financial period, FET has sold 14 properties, the gross value of the sales being \$17.18m. The average passing yield on all sales has been 6.98% with the lowest yield achieved being 6.23%. Notably, seven properties were in regional locations, providing further evidence of yield compression in regional markets as well as that occurring in metropolitan markets.

The sales provide a capital gain over book values before selling expenses of approximately \$2.9m.

VALUATIONS

As part of FET's valuation policy, approximately one third of FET's properties are independently valued in any one year. In addition, where the carrying value of a property differs materially from the fair value each reporting date, Director's valuations are adopted.

In the five months to November 2014, 64 independent valuations have been completed across the portfolio. For those properties, this has provided an increase over the previous valuations (either independent or Director's valuations) of approximately 13%, with similar increases being reflected in both the Australian and New Zealand portfolios. This reflects increasing rents and the tightening of yields driven by the high demand for early learning properties as evidenced by the sales activity over the last 12 months.

The outcome of these valuations will form the basis of the Director's valuations which will be conducted on the balance of the portfolio where appropriate as at 31 December 2014. These are expected to have a further positive impact on FET's NTA per unit.

Importantly, we expect the yield compression which has characterised the early learning market place over the last 12 months to enhance the returns of the development sites FET has purchased since late 2013.



FST MERGER PROPOSAL

The proposed merger with the Folkestone Social Infrastructure Trust ("FST") (ASX: FST) is due to be voted on at a meeting of FST Unitholders today, at 3pm. If the vote is successful, the transaction will result in FET acquiring 47 early learning properties, a medical centre and a 15 per cent interest in the Folkestone CIB Fund, which holds a portfolio of police stations and courthouses. An announcement to FET Unitholders will be made following the meeting as to the final voting outcome.

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Further information

The Folkestone Education Trust internet site is a source of information for Unitholders. It includes details of FET and its Manager, announcements, current activities and historical information. The site provides access to annual and half-year reports and also FET updates covering matters of relevance to investors. www.educationtrust.folkestone.com.au

About Folkestone

Folkestone (ASX:FLK) is an ASX listed real estate funds manager and developer providing real estate wealth solutions. Folkestone's funds management platform, with over \$850 million under management, offers listed and unlisted real estate funds to private clients and select institutional investors, while it's on balance sheet activities focus on value-add and opportunistic (development) real estate investments. www.folkestone.com.au