abacus property group

Level 34 Australia Square
264-278 George Street
Sydney NSW 2000
T 02 9253 8600
F 02 9253 8616
www.abacusproperty.com.au

Abacus Group Holdings Limited
ACN 080 064 619
Abacus Group Projects Limited
ACN 104 066 104
Abacus Funds Management Limited
ACN 007 415 590
Abacus Property Services Pty Limited
ACN 050 739 001

ANNOUNCEMENT

Proposed merger with Abacus Storage Fund

Executive Summary

- As foreshadowed in Abacus Property Group's recent Strategic Update the directors of Abacus Property Group (*ABP)* and Abacus Storage Fund (*ASF*) have lodged with the Australian Securities and Investments Commission an explanatory memorandum recommending the merger of the two Groups into a single listed A-REIT.

- The merger proposal (*Merger*) has the support of all the independent directors of both ABP and ASF, who recommend that ABP and ASF securityholders vote in favour of the Merger in the absence of a superior proposal.

- The Merger is to be implemented by way of stapling ASF securities to ABP securities. The Merger offer is based on a pro forma net tangible asset (*NTA*) basis of exchange for ABP and ASF securities (the *Merger Ratio*) with ABP securityholders to hold one New Stapled Security for each ABP security held and ASF securityholders to receive 0.538 New Stapled Securities for every ASF security held. In addition ASF securityholders will receive a $0.14 cash distribution (of which 8.7 cents will be a fully franked dividend) for every ASF security (the *Merger Distribution*).

- The Merger Ratio is based upon pro-forma NTA per security of ABP of $2.407 (taking into account the early adoption of AASB10) and ASF of $1.295.

- The Merger enables ABP to gain exposure to $332 million of self storage assets through the issue of 37.6m new ABP stapled securities at NTA supplemented with $11 million cash. Commercially the combined consideration of ABP scrip and cash is consistent with the economics of a property transaction at current market capitalisation rates.

- For ABP securityholders the Merger results in:
  - exposure to ASF's portfolio of 41 storage facilities which is one of Australasia's largest portfolios of self storage assets at a current portfolio cap rate of 9.2% delivering a larger and more diversified property group;
  - access to an asset portfolio with strong cashflow performance during and since the GFC and one that is capable of further low cost organic growth;
  - achieving ABP's stated 70/30 strategy with approximately 70% of the assets owned by ABP being directly owned investment properties; and
  - capital management efficiencies, as the debt terms for the storage assets as part of the merged ABP group are better than the existing ASF debt arrangements.

- For ASF securityholders the proposed Merger results in a liquidity outcome, a cash payment and the opportunity to continue to have exposure to the ASF assets via ownership of New Stapled Securities, or to exit for cash through a sale facility.

The Merger

The Merger will be implemented by stapling ASF securities to ABP securities so that they will be traded together as an expanded group trading under the tag "**ABP**". If the Merger proceeds, the number of New Stapled Securities that ABP and ASF securityholders will hold after the implementation date of the Merger is calculated using the Merger Ratio.

As noted above the Merger Ratio is based on the relative pro forma net tangible assets of ABP and ASF. Pursuant to this ratio:

- each ABP securityholder will hold one New Stapled Security for every pre-Merger ABP security they hold; and
- each ASF securityholder will hold 0.538 New Stapled Securities for every pre-Merger ASF security they hold. In addition they will receive a Merger Distribution in cash of $0.14 per ASF security, 8.7 cents of which will be a fully franked dividend.

On implementation of the Merger, ASF securityholders will comprise 8.9% of New Stapled Securityholders while ABP securityholders will comprise 91.1%.

The Merger consideration for ASF Securityholders

Since the Merger consideration is primarily based on a fixed number of New Stapled Securities, the value of the Merger consideration will depend on the price that the New Stapled Securities trade at on and after the Merger. The independent expert has assessed the fair market value of an ASF security at between $1.24 and $1.25 and the fair market value of the Merger consideration for each ASF security at between $1.16 and $1.22 (based on an assumed ABP trading price range of $1.90 to $2.00 plus the Merger Distribution). As at 11 January 2012, the 30 day VWAP for ABP securities was $1.95 which would place a value of $1.19 on the Merger consideration.

It should, however, be noted that the value of the Merger consideration for each ASF security on an NTA basis is $1.43 for each ASF security, representing a premium of approximately 15% to the independent expert's fair market valuation of an ASF security. This is comprised of $1.29 NTA entitlement per ASF security based off the Merged Group's pro-forma NTA per security of $2.39 multiplied by the Merger Ratio plus the $0.14 Merger Distribution per ASF security.

In addition, the independent expert has assessed the fair market value of an ABP security on an adjusted net asset basis at between $2.43 to $2.55, placing a value on the Merger consideration of $1.45 to $1.51.

Sale Facility

Due to legal restrictions, the opportunity to participate in the Merger cannot be made available to securityholders whose address on the relevant securityholder register is outside Australia or New Zealand. A sale facility has been arranged for those securityholders. The securities they would otherwise receive under the Merger will be sold and they will instead receive their proportionate share of the proceeds of sale. Details of this facility are outlined in the explanatory memorandum.

ASF securityholders may also choose to participate in the sale facility, with the New Stapled Securities they would have been entitled to being sold for cash and the proceeds distributed to them free of brokerage.

Rationale for the Merger

Background

ABP committed to a strategic review of its unlisted retail funds management platform in August 2011, driven in equal part by the continued deterioration in the demand from the retail investor market for unlisted real estate investment product as a result of the GFC and by the success ABP has experienced with its wholesale and sophisticated third party capital initiatives.

ASF is ABP's largest unlisted retail fund comprising $332 million of ABP's $820 million unlisted retail funds management platform. Since ABP's 2011 full year results presentation, ABP and ASF directors have been reviewing and developing an appropriate strategy meeting the best interests of both ABP and ASF securityholders.

ABP

The Merger is transacted at pro forma NTA for ABP of $2.407 per security (after adopting AASB10) and for ASF of $1.295 per security, based on independent valuations of the underlying investment property assets of ABP and ASF undertaken within the last 12 months.

The Merger will give ABP exposure to one of Australasia's largest portfolios of storage assets valued at $332 million. The Merger will reweight ABP's asset portfolio to its target asset allocation ratio of approximately 70% directly owned investment properties and 30% other property assets by increasing directly owned properties from approximately $1 billion to over $1.3 billion. Further, the storage portfolio is expected to increase and strengthen ABP's recurrent income stream as the underlying cashflows of the storage assets have proven resilient in varying economic conditions, including through the recent global financial crisis.

ABP will issue approximately 37.6 million securities and use approximately $11 million cash (of which approximately $10 million will be applied to the Merger Distribution to ASF securityholders and approximately $1 million will be used for transaction costs) to implement the Merger. The total Merger consideration of ABP scrip and the cash is consistent with the economics of a property transaction at current market capitalisation rates.

ASF

The Merger provides ASF securityholders an exit strategy and liquidity event from a constrained capital structure. It provides securityholders an option to exit or stay invested in the storage portfolio (although in a diluted form) with exposure to a more substantial and more diversified property portfolio.

The Merger also provides a solution to the need to lower the fund's gearing levels and the banking covenants that might require additional equity being sought, which could result in a dilution to existing securityholders and a possible disruption to fund distributions.

Based on the twin objectives of preservation of capital and provision of liquidity, the Merger is considered to be the superior option available to meet these objectives for ASF securityholders.

There is also potential upside for ASF securityholders if the ABP security price trades towards its NTA given the current trading discount to ABP's NTA.

ABP has a 19.95% securityholding in ASF which will not participate in the Merger proposal.

The Merged Group

The Merged Group will be a well capitalised listed A-REIT with pro forma total assets of approximately $2.1 billion. The Merged Group's pro forma gearing will increase by approximately 6% to approximately 33%, within the Group's target gearing range of 30% to 35%. Similarly, covenant gearing will increase by 6% to approximately 38%, well within the 50% ratio required by the Group's debt facilities (both gearing ratios are not affected by the impacts of adopting AASB10).

The proposed transaction is expected to deliver a nominal reduction in pro forma net tangible assets (due to the cash used) from $2.41 to $2.39. In addition, based on the Merged Group's pro forma financial statements as at 30 June 2011, there will be a nominal reduction in underlying earnings in part due to tax payable by ASF because a small number of self storage assets are held by a company. However this should not affect the Merged Group's distributions.

Dr Frank Wolf, ABP Managing Director said "ABP will grow into a more substantial and diversified A-REIT with the addition of one of the largest self storage portfolios in Australasia. The Merger will enhance the expanded ABP's recurring earnings and will assist in achieving our targeted reweighting of the balance sheet allocation to 70% directly owned investment properties. The Merger also provides ASF securityholders with an excellent exit opportunity or the option to stay invested in a larger more diverse portfolio."

Full details of the advantages, disadvantages and risks of the Merger for each set of securityholders are set out in the explanatory memorandum, a copy of which has been lodged on the ASX with this announcement and is also available on ABP's website www.abacusproperty.com.au.

Alternatives to the Merger

The ASF directors have considered a number of alternatives to the Merger including an immediate sale of the ASF portfolio, a stand-alone listing of ASF, a deferred sale of the portfolio, a recapitalisation or third party merger and individual asset sales. However, these were not considered as attractive as the Merger.

Since announcing the Merger, ASF has received a preliminary expression of interest in the ASF portfolio. The approach is incomplete, subject to the conduct of due diligence and uncertain. However the ASF Board has offered to provide the interested party with all necessary information to allow them to finalise a proposal before the Meeting Date. If the ASF Board receives a sufficiently certain offer which is more attractive than the Merger, it may adjourn or discontinue the Merger meeting. However, absent such an offer the ASF Board intends to present the Merger proposal to ASF securityholders for their consideration. The ASF Board understands there are likely to be adverse tax consequences which would significantly impact the viability of the Merger if the meeting does not proceed as planned and the Kirsh Group subsequently increases its holding in ABP from its current holding of 39.2% to more than 40%.

Recommendations to securityholders and independent expert's opinion

The Independent ABP and ASF directors recommend that ABP securityholders and ASF securityholders vote in favour of the Merger because they believe it is in the best interest of securityholders in the absence of a superior proposal.

The ABP and ASF directors appointed Lawler Corporate Finance Pty Ltd to prepare the independent expert's report to assist in their consideration of and to provide an opinion on the Merger proposal. The independent expert concluded that the proposed Merger is "fair, reasonable and in the best interest" of ABP securityholders and "not fair but reasonable and in the best interest" of ASF securityholders. A copy of the independent expert's report is included in the explanatory memorandum which is available on ABP's website www.abacusproperty.com.au and will be distributed to all securityholders on 24 January 2012.

Vote on the Merger

The Merger is subject to a number of conditions, as listed in the explanatory memorandum, including the approval of both ABP and ASF securityholders. The meetings to consider and, if appropriate, approve the Merger will be held in the Adelaide Room, Sofitel Sydney Wentworth, 61-101 Phillip Street, Sydney NSW 2000 at 10.00am Friday 24 February 2012.

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16 January 2012

Ellis Varejes
Company Secretary

Neil Summerfield
Head of Investor Relations
Abacus Property Group
+61 (2) 9253 8600