Centro Direct Property Funds Investor Update – Key Issues

December 2008

During October and November, Centro Direct Property Funds Manager Alan Hayden together with Glenn Rufrano and Philippa Kelly, met with over 330 investors and advisers at 23 separate briefings. The briefings provided an overview of the key issues and challenges facing Centro Properties Group and the Centro Direct Property Funds and provided investors and advisers with an opportunity to ask questions and have dialogue with senior Centro management.

This Investor Update provides a summary of the key issues discussed at the briefings and recent announcements by the Funds.

1. Centro Group

Centro has recently announced that agreement has been reached in principle with all financiers to achieve a long term refinancing and stabilisation plan for the group. A one month interim extension to all of Centro's facilities expiring on 15 December 2008 was agreed in order to allow time for the completion of documentation in this regard. Please refer to the Centro website for full details of the announcement made on 16 December 2008.

2. Funds' Suspension

We anticipate that the suspensions will continue for the foreseeable future. Both the DPF and DPFI have the majority of their assets invested in illiquid assets, primarily unlisted direct property funds.

3. Unit Pricing and Fund Valuations

The Manager of the Direct Property Funds reviews the Unit Price for both Funds on a daily basis. Changes are made to the Unit Prices when there are changes in the underlying investments or if the Manager expects there to be changes based on market conditions.

The primary factor impacting unit values in the Funds' underlying syndicate and wholesale fund investments is property valuations. Centro has a policy whereby every property in its managed portfolio is revalued on a six-monthly basis. Each unlisted Centro fund then determines a unit price which factors in these valuations. Gearing within the funds amplifies any valuation change.

The Centro MCS syndicates and Centro wholesale funds, which comprise the bulk of the DPF and DPFI investments, typically determine provisional Net Asset Backing (NAB) or unit prices in December and June with final figures published in their half or full year accounts.

As a result of the global financial crisis, we are seeing declining property valuations both in the United States and Australia. Given that the credit crunch started in the US, property values have already been impacted there, with falls in valuations at December 2007 and June 2008. Australian property valuations generally held up well during these periods, however we expect valuations in Australia to decrease at 31 December to a greater extent than the US centres, reflecting the impact of the crisis in global economic, financial and property markets.

Taking into account valuation changes, gearing and currency impacts where relevant, the Manager accordingly anticipates reductions in the unit prices of the Australian investment funds of up to 20% and approximately 14% for the US funds.

The impact of these reductions have a consequential impact on DPF and DPFI unit values, and a series of unit price adjustments are being made for both DPF and DPFI. The unit prices will adjust again once the Centro MCS syndicates announce their provisional NABs and when other investment funds release their December unit prices.

4. Capital & Income Distributions

Our focus remains on preserving value, maintaining distributions and identifying appropriate opportunities to return some portion of investors' capital over the next 12 months. Opportunities to return capital will depend on our ability to liquidate some of the investments of the DPF and DPFI.

Capital was recently returned to investors when the DPF received $8 million from Centro MCS 2 following the sale of the sole asset in that syndicate and the subsequent distribution of the bulk of the net equity to its investors. This enabled the DPF to supplement the September quarter income distribution (0.90 cents per unit) with a 0.50 cent per unit capital distribution. The DPF made a further capital distribution of 0.75 cents per unit on 9 December principally sourced from the sale of some of its listed property stocks. The payment of these capital distributions reduced the DPF unit price by 1.25 cents.

The funds into which the DPF and DPFI are invested have sold only a small number of assets. Further sales may occur over the coming months which may result in the underlying funds using the proceeds to repay some of their debt or returning capital to the DPF or DPFI. If any of the Funds' assets are so realised, we intend to pay any further capital proceeds to investors.

The Funds will not initiate or pursue actions which lead to liquidity or capital returns at a significant loss of value.

Quarterly income distributions have continued to be paid, albeit at rates significantly less than pre-suspension levels. The Funds have no debt and no interest costs to meet nor any capital expenditure commitments. We will maximise quarterly income distributions by paying out all net income derived by each Fund.

We do not anticipate that the rate of income distributed by the Funds will return to pre-suspension levels. Actual income distributions may fluctuate based on the income received from the investments.

Most of the Funds' investments have forecast reduced distributions for FY09, including the Centro MCS syndicates which have forecast distributions for FY09 to be 25% less on average across its portfolio.

Likewise the Centro Australia Wholesale Fund and Centro America Fund have reduced their distribution rates from pre-December 2007 levels. The Funds also have a portion of their investments in other Centro managed funds which are not currently paying or providing guidance regarding distributions for FY09.

5. Property Performance

Centro recently announced details relating to its Australian and US managed portfolio of shopping centres for the September 2008 quarter:

- The Australian portfolio has occupancy of 99.7% at September 2008 compared to 99.5% at June 2008. September quarter sales growth was 7.4% with Department Stores the only sector showing negative growth (-1.9%). 396 leasing deals were written over the quarter with rental growth of 6.5% achieved.
- The US portfolio has occupancy of 91.9% at September 2008, the same as June 2008. The US Census Bureau reported an overall decline in retail sales for September quarter compared to the June quarter of 1%. Grocery store sales in the US increased by 1% for the same period and by 5.2% compared to the September 2007 quarter. 461 leasing deals were written over the quarter with rental income growth of 6.4% achieved.

  Further details of the property operating performance can also be found on the Centro website centro.com.au

6. Contact Us

If you have any questions in relation to your investment, please call **Centro Investor Services** on **1800 802 400** or **+61 3 8847 1802** (International).