Special APNIC EC Meeting

Teleconference

Tuesday 16 October 2007

***Meeting Start**: 10:10 am (UTC +1000)*

Present

Akinori Maemura (Chair)
Che-Hoo Cheng (Secretary)
Ming-Cheng Liang
Paul Wilson (Director-General)

Geoff Huston (Executive Secretary)
Connie Chan

Apologies

Vinh Ngo
Kuo-Wei Wu
Kusumba Sridhar
Mao Wei

Agenda

1. Acquisition of Office Property for APNIC

Minutes

1. Acquisition of Office Property for APNIC

A special session of the EC was called to consider the delegation of authority to the Director-General to make a committed offer for the acquisition of an office property by APNIC. Information relating to the property and the financial aspects of the potential investment had been circulated to the EC prior to the meeting.

The EC considered the financial aspects of the investment and the relative prospects of holding assets in cash deposits and the prospects relating to office property investment in this location (Director-general's briefing note to the EC attached).

The matter of timing of any committed offer of purchase was discussed by the EC and the desire to have a more extended period to consider all aspects of such an investment was expressed. It was noted that in this case an extended period to consider the property prior to making any binding commitment to purchase was not available given the highly competitive situation regarding office property in this market, and that such constraints on were typical given the situation of an ongoing level of high demand for office property in this area.

The proposal was made that the EC should establish a framework and associated delegation of authority that would allow APNIC to undertake due and proper consideration of acquisition of an office property for APNIC within the typical timeframes associated with commercial property purchases

The meeting was adjourned without any motion being put to the meeting.

Meeting closed: *10:35 am (UTC+1000)*

Attachment

Director-General's Briefing Note

Situation Report

APNIC has been examining potential investment opportunities in office accommodation in the Brisbane area for the past 2 years. The aim is to convert some of the APNIC cash assets into a suitable property investment, allowing APNIC to eliminate office rental from the budget and also secure some additional taxation offsets, as well as lift APNIC's asset performance through capital gain.

The EC previously reviewed this initiative, and some reports of previous properties, and agreed that the Director-General should continue this search for suitable properties in the Brisbane area.

Previous options had significant developmental cost. However, we have recently been informed of an office property in Park Rd, Milton that is very interesting. This particular building is a very good opportunity for APNIC. The office accommodation is already fitted out in a manner that is suitable for APNIC's needs, which reduces future office refurbishment expenditure. The size of the property is slightly smaller than our current space, but would meet APNIC's office accommodation needs for eventual occupation.

The building is currently occupied, with leasing arrangements which will last for several years. However APNIC also has a 5-year commitment in our current location, which means that relocation into the new space could happen at any time in the next 5 years.

Ownership of the property would allow APNIC to secure a long term interest in a property, to offset a component of the taxation expenses through capital depreciation allowances, and to secure a significant capital gain opportunity.

Financial Summary

The post-tax performance of APNIC's Australian dollar investment accounts currently stands at between 3.00 to 4.00%, while the US dollar accounts are significantly lower because of the lower prevailing US interest rates.

Occupation of the building would allow APNIC to eliminate a recurrent rental expense of some $550,000 per annum, or around 5% of our budget. Until that time, rental income received would offset our current rental expenditure.

Using a market rate of $400 per sq m p.a. as the total income for the complete property (rental plus recoveries) and a net expense of $23 per sq m p.a. that is not recoverable gives a net income for the 978 sq m of $368,706 p.a..

For a $5.8M purchase price this would represent a 6.3% return on investment. This would value the building at $4.5M which would also allow a depreciation allowance for taxation purposes. Assuming a net allowance of $150,000 p.a. this would result in a net return of 8.9%.

In terms of net change from the current position, the investment of $5.8M would replace a recurrent annual expenditure of $554,000 from the APNIC accounts with an expenditure of $85,000, representing a net return of 8.1% for the $5.8M investment. This return is exclusive of any capital gain component associated with the property.