DHA RESIDENTIAL PROPERTY FUND NO. 1 ARSN 163 921 640

HALF YEARLY REPORT

PERIOD ENDING 31 DECEMBER 2014

DHA Investment Management


ENTRY TO
23 - 24

DHA Investment Management

Dear Investor

On behalf of DHA Investment Management Limited, I am pleased to present the half yearly report for the six months ended 31 December 2014, for the DHA Residential Property Fund No. 1 (Fund).

This report provides a summary of the performance of the Fund for the six months from 1 July 2014 to 31 December 2014.

The Board's intention remains to continue distributions to Unitholders of 100% of cash profits plus a small amount of residual capital not utilised in the initial purchase of properties by the Fund. It is envisaged that distribution per unit will remain consistent with existing practices for the immediate future.

Thank you for your continued support over the past six months. The Board remains focused on maintaining quality assets, duly supported by a strong corporate governance structure to maximise returns for investors.

The residential property market in Australia has been both challenging and rewarding, strongly influenced by factors specific to each region. With the Fund having a diversified portfolio and a contracted annual rental increase, it is well positioned for future returns.

Yours faithfully

Carol Holley
Chair
DHA Investment Management Limited

Fund particulars

DHA Residential Property Fund No. 1
ARSN: 163 921 640
ABN: 38 256 918 058

Responsible Entity
DHA Investment Management Limited
26 Brisbane Avenue
Barton ACT 2600
ACN: 161 662 255
ABN: 59 161 662 255

Registered Office
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Tel. 139 DHA (139 342)
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Directors of the Responsible Entity
Carol Holley (Chair and Non-Executive Director)
Peter Howman (Executive Director)
Jon Brocklehurst (Executive Director)

Compliance Committee
Penny James (Independent Chair)
Graeme MacLaren (Independent Member)
Jon Brocklehurst

Secretary
Ross Jordan

Unit Registry
White Outsourcing
Lvl 3, 99 Bathurst Street
Sydney NSW 2000

Custodian
Perpetual Limited
Lvl 13, 123 Pitt Street
Sydney NSW 2000

Solicitors to Responsible Entity
Norton Rose Fulbright Australia
Lvl 18, Grosvenor Place
225 George Street
Sydney NSW 2000

Auditors to the Fund
Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2601

Portfolio highlights

- All 79 properties received a 4.25% rental increase on 31 December 2014, in accordance with the lease agreements.
- Gross rental yield for the 2015 calendar year is expected to be 5.55% based on the latest rental increase and utilising the cost base of the properties purchased.
- Underlying Profit of the Fund for the period 1 July 2014 to 31 December 2014 was $687k.
- The Cum-Distribution Unit Price for each unit held at 31 December 2014 is $0.9895.
- Quarterly cash distributions of $0.0084 per unit were paid on 5 November 2014 and 2 February 2015 in respect of the six month period.

Portfolio summary

As at 31 December 2014, the portfolio consisted of 79 properties. The composition of the portfolio of properties is shown in Table 1:

Table 1: Property portfolio

State	No. of Property	Portfolio Market Value (as at 30 June 2014) A$
ACT^	12	$6,900,000
NSW	23	$16,885,000
NT	5	$3,925,000
QLD	14	$6,945,000
SA	5	$1,870,000
VIC	10	$4,805,000
WA	10	$5,010,000
Total	79	$46,340,000

^ Includes Queanbeyan and Jerrabomberra properties that border the ACT but are actually located in NSW.

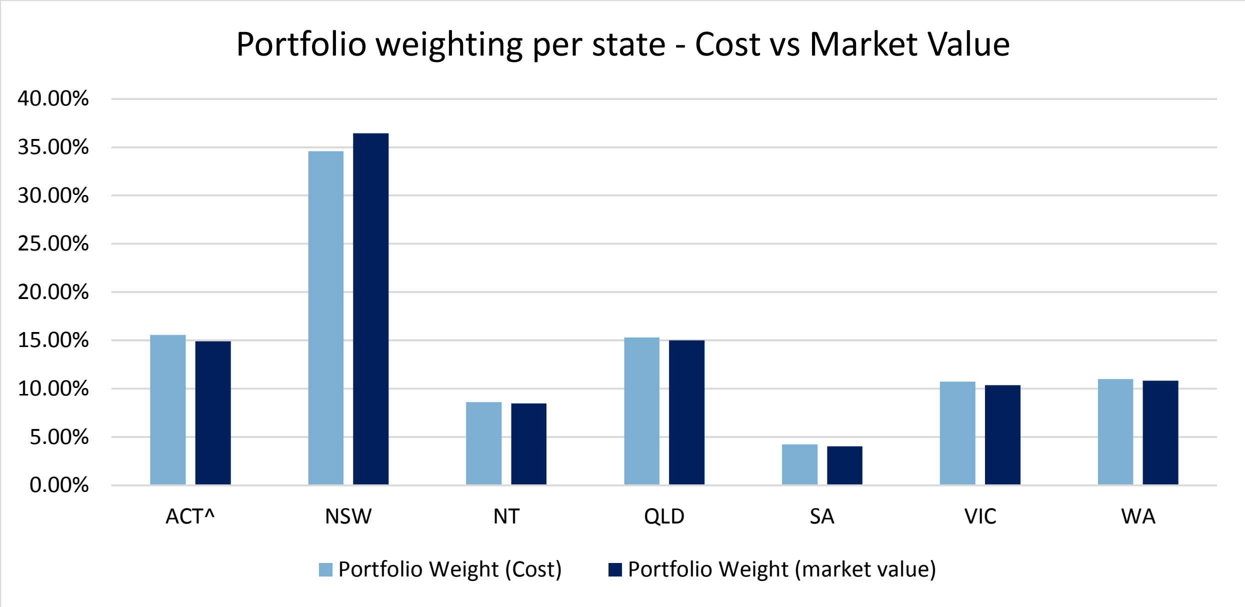
The above portfolio value is based on the valuation of the properties that occurred on 30 June 2014. The portfolio will be revalued by registered valuers at the 30 June each year, which will subsequently be represented in the financial statements and used in the calculation of the unit price of the fund.

In line with the Valuation Policy, new valuers of the Fund properties will be appointed for the 30 June 2015 valuations process. To ensure a robust valuation process and valuations are received that most closely reflect the market conditions, valuers will only be appointed if they meet the following criteria:

- Certified Practising Valuers are to be appointed by and reporting to the relevant fund manager.
- Appointed valuers must be a member of the Australian Property Institute (in the relevant State or Territory in which the property is located).
- Appointed valuers must have professional indemnity insurance which includes cover for kerbside/restricted valuations.
- Shall provide a valuation in writing, in the form of a valuation certificate and will be substantiated by the valuer by appropriate supporting evidence.
- The selected valuer should not have any conflict of interest which would preclude them from undertaking the valuation.

The 30 June 2014 valuation results changed the state by state weighting of the property portfolio, reflecting largely the growth of the Sydney market relative to other capital cities in Australia.

Chart 1: Portfolio weighting



^ Includes Queanbeyan and Jerrabomberra properties that border the ACT but are actually located in NSW.

As per the lease agreements, rent has increased by 4.25% on each property in the portfolio at 31 December 2014. As a result of the rent increase, the gross rental yield for the coming year will increase to 5.55% based on the property acquisition cost base, and 5.32% based on market value.

The Fund has paid a distribution of $0.0084 cents per unit to investors in early February 2015 in respect to the quarter ended 31 December 2014.

Portfolio performance

Rent received for the period from 1 July 2014 to 31 December 2014 was $1,181,730, with a net profit from rental operations of $690,113. As per the lease agreements in place with DHA, where DHA assumes all vacancy risk, all properties in the Fund have received rent for the whole period 1 July 2014 to 31 December 2014. Rent is paid one month in advance and rent for the month of January 2015 has been received, which has been accounted for as income received in advance. Corresponding property management fees, at the rates advised in the PDS, on the rent have also been paid.

Table 2: Key metrics

	1 July 2014– 31 December 2014
Underlying Profit	$687,000[1]
Gross Rental Yield	5.55%[2]
Cum – Distribution Unit Price	0.9895
Cash Distribution	$395,600
Net Rental Profit Margin	67.9%[3]

[1] Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors, the ongoing operating activities of DHA Residential Property Fund No. 1 in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined and does not include any impact from unrealised market revaluation.

[2] Gross Rental Yield is a measure that shows January rental income (to show the impact of the annual 4.25% increase) extrapolated out over twelve months divided by the purchase price (not including capitalised transaction costs) of the property held at reporting date.

[3] Net Rental Profit Margin is determined by dividing the net profit from rental operations by rent received.

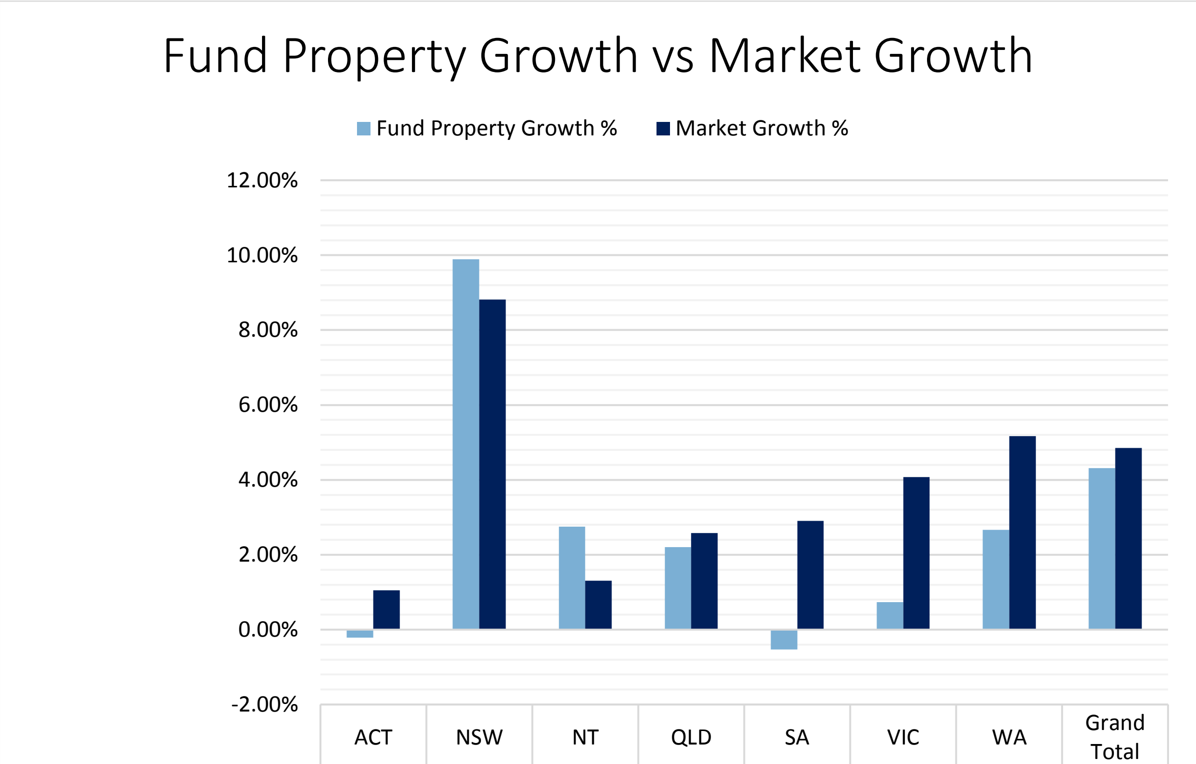
Portfolio outlook

The performance of the Fund is intrinsically linked to the capital growth and rental return generated from the Fund properties. The first capital valuations since the establishment of the Fund were performed at 30 June 2014 and impacts of capital revaluations were accounted for within the financial statements for the financial year ended 30 June 2014. Financial valuations of the capital value of the properties will occur again in June 2015, and will be reflected in the financial statements for the year ended 30 June 2015.

Capital Growth

Chart 2 below compares the capital growth based on June 2014 valuations to market growth based on CoreLogic RP Data Postcode indices data for the period September 2013 (being the commencement of the Fund) to June 2014. The postcode of the properties held within the Fund has been compared to the respective CoreLogic RP Data postcode benchmarks.

Chart 2: Fund Property Growth vs Market Growth at 30 June 2014

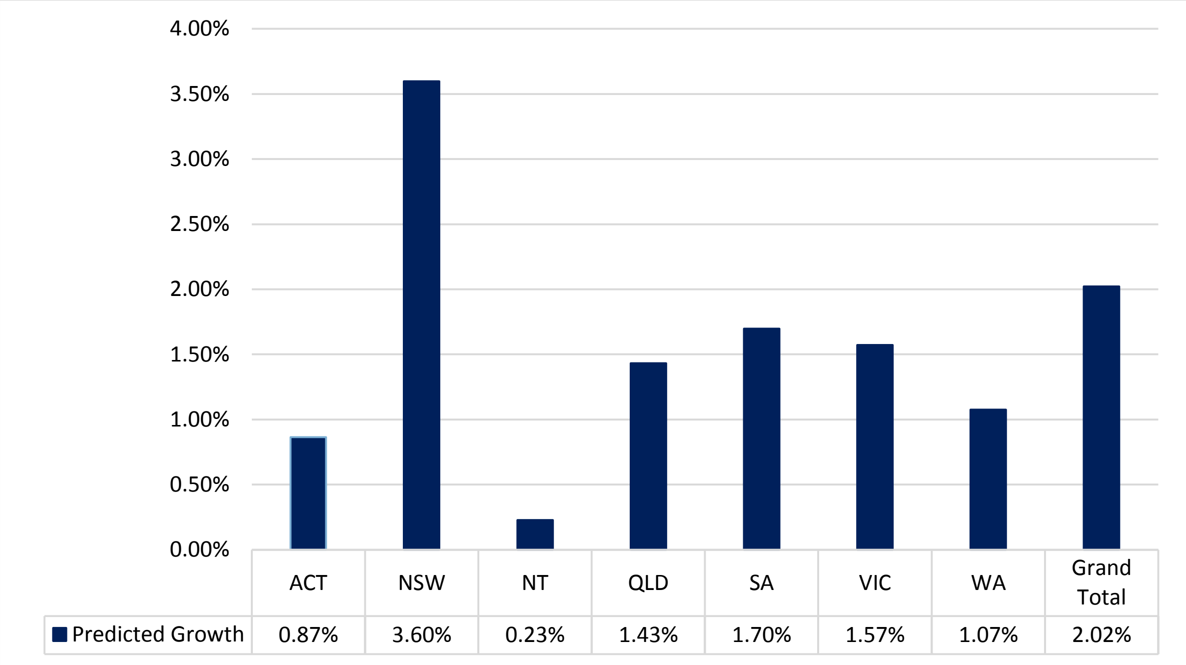


	ACT	NSW	NT	QLD	SA	VIC	WA	Grand Total
Fund Property Growth %	-0.22%	9.89%	2.75%	2.21%	-0.53%	0.73%	2.66%	4.31%
Market Growth %	1.05%	8.81%	1.31%	2.58%	2.91%	4.08%	5.17%	4.85%

Note: Market growth is based on data from CoreLogic RP Data Postcode Indices.

The Fund properties were not valued at 31 December 2014 as the Valuation Policy is to conduct valuations as at 30 June each year. However, to provide some indication of the possible capital movement in the Fund the following chart highlights the capital performance of both units and houses (weighted as per Fund %) for the period 1 July 2014 to 31 December 2014 sourced from CoreLogic RP Data Postcode Indices.

Chart 3: CoreLogic RP Data Postcode Indices (July 2014–December 2014)



A detailed analysis will be provided in the 30 June 2015 Annual Report of the growth of the property portfolio compared to market, once the valuations have been performed at 30 June 2015.

In the latest NAB Residential Property Survey: Q4 2014 by NAB Group Economics, it can be seen from the Table 3, that capital city average growth for the year ended December 2014 was estimated to be 6.4%, which shows continued strong growth in the Sydney market but softening in most markets from the highs of the year ended December 2013.

Table 3: Capital growth for 6 years 2011 to 2016

	Year to end- December					
	2011	2012	2013	2014e	2015f	2016f
Sydney	-3.2	4.6	16.0	10.7	4.1	2.3
Melbourne	-5.6	0.0	10.0	5.1	2.7	2.3
Brisbane	-5.4	1.6	5.7	6.8	5.7	3.8
Adelaide	-4.5	-0.2	5.1	4.9	2.1	2.2
Perth	-4.1	6.2	8.3	2.7	1.8	1.0
Capital city average	**-4.4**	**2.6**	**10.5**	**6.4**	**3.9**	**2.1**

**percentage changes represent through the year growth rates.*

Source: NAB Residential Property Survey: Q4 2014 by NAB Group Economics.

Coupled with this, NAB Economics expects “average capital city house prices to cool to around 4% over the year to end-2015 and 2% over the year to end-2016. (NAB’s) …assessment of the market remains that house price growth will continue to moderate because of rising unemployment, sluggish household income growth, affordability concerns, cost of living pressures and high levels of household debt. (NAB) …are also forecasting two further interest rates cuts of 25bps in March and 25bps in August 2015 (bringing the official cash rate down to 2%) which should support house prices a little more than previously expected.

The Reserve Bank of Australia (RBA) has also expressed their concerns about the overheating and “unbalanced” state of the property markets in the latest bi-annual Financial Stability Review (FSR) released in September 2014. Particular emphasis was placed on “new lending to investors being out of proportion to rental housing's share of the housing stock.”

While the RBA noted that “additional speculative demand can amplify the property price cycle and increase the potential for prices to fall later” it did state that “Australia is a long way from an oversupply of housing”. The RBA said it was also concerned about the increase in interest-only loans, which "might also be consistent with increasingly speculative motives behind current housing demand".

Since their report the RBA has moved to reduce the official cash rate by 0.25 basis points at its meeting in February 2015.

Below at Table 4, is a summary by BIS Shrapnell, of each of the major capital cities outlook and risks to the market to 2017. This data focuses on the capital cities where the majority of the Fund properties are held.

Table 4: Capital city market outlook and risks

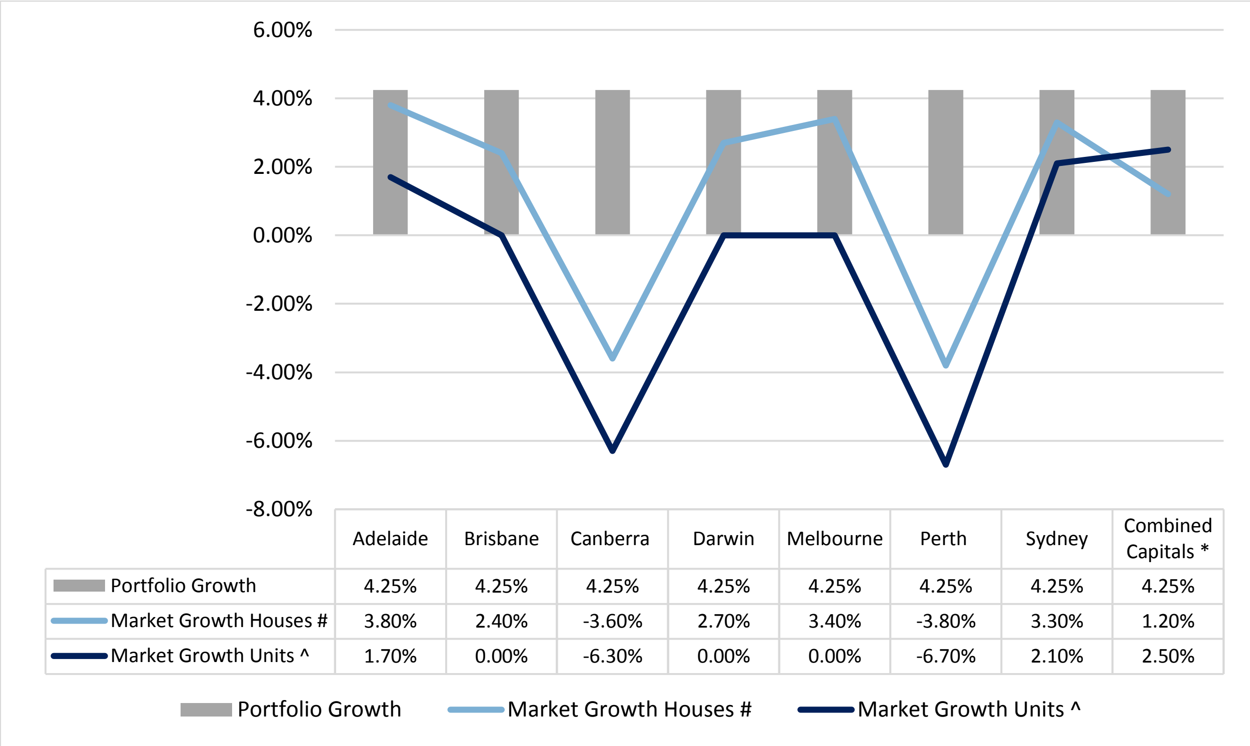
City	Outlook	Risks
Adelaide	• Median house value forecast to be $440,000 at June 2017; • Growth predicted at 1.2% for 2014/15 growing to 2.4% in 2015/16 and falling back to 1.1% in 2016/17	• The new dwelling construction grant increasing completion above the level of underlying demand; • Manufacturing sector under pressure • First home buyer demand sated by removal of grants
Brisbane	• Strengthening population growth fuelled by overseas and interstate migration; • Increased affordability advantage over Sydney & Melbourne; • Median house value forecast to lift to $535,000 by June 2016; • Growth predicted at 6.4% in 2014/15, increasing to 7% in 2015/16 and slowing to 2.8% in 2016/17	• Dwelling completions are projected to start outpacing underlying demand; • 2016/17 underlying demand is anticipated to weaken as net overseas migration falls in line with the national intake
Canberra	• The median house price forecast to be $530,000 at June 2017; • Growth predicted at -0.9% for 2014/15, increasing to 0.9% for 2015/16 and 2016/17 respectively;	• Estimated excess dwelling supply of 4,800 dwellings at June 2014 and rising into 2014/15; • Vacancy Rates at 4.3% in September 2014; • Public sector cutback likely to increase caution; • Weakening migration and net interstate inflow reverting back to net outflow.
Darwin	• The median house price is forecast to be stagnant at $620,000 at June 2017; • Growth predicted at 0.7% for 2014/15 moving to 0% for 2015/16 and trending down to -0.8% in 2016/17.	• Vacancy is rising and currently at 5.2% in the September 2014 quarter; • Population growth is slowing with lower net overseas migration inflows and higher net interstate outflows; • Additional investment activity limited, therefore generating little addition employment growth.
Melbourne	• New dwelling supply will remain strong; • Median house value forecast to lift to $685,000 at June 2017; • Growth predicted at 3.2% for 2014/15 slowing to 2.2% in 2015/16 and 0% for 2016/17	• Expected to be affected by the closure in 2016/17 of the locally based car manufacturers and the industry effects of this; • Population growth is forecast to slow, easing demand;
Perth	• The median house price is forecast to decline to $530,000 by June 2017; • Growth is predicted to fall by 0.9% and 1.9% in the coming to financial years and increasing back to no growth for 2016/17; • Affordability at the best levels since 2003	• Overseas migration weakens and net interstate migration reverts to an outflow; • Rapidly weakening employment conditions as resource sector investment falls
Sydney	• Growth predicted at 8% for 2014/15 slowing to 5% in 2015/16 and negative 1.6% for 2016/17; • Median house price forecast to lift to $905,000 by June 2017; • Investor loans up 17% at Sept 14 quarter year on year • Owner occupiers lending rose 9% • The market currently experiencing solid tenant demand, tight vacancy rates and rising rents	• Forecast rise to interest rates in mid 2016 will begin to impact confidence and therefore price growth; • Forecast variable rate of 6.6% at June 2017 will stretch affordability;

Source: BIS Shrapnel Residential Property Prospects 2014 – 2017, December 2014 update.

Rental return

In accordance with the leasing contract with DHA, the Fund properties receive annually a 4.25% rent increase for the January rent each year for the first five years. The chart below compares the market percentage change in rents for the 12 months to December 2014 against the 4.25% increase. It highlights that the 4.25% increase is more than double what the combined capitals is showing if houses and units are represented by one figure.

Chart 4: Rental growth - 12 months to December 2014



	Adelaide	Brisbane	Canberra	Darwin	Melbourne	Perth	Sydney	Combined Capitals *
Portfolio Growth	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Market Growth Houses #	3.80%	2.40%	-3.60%	2.70%	3.40%	-3.80%	3.30%	1.20%
Market Growth Units ^	1.70%	0.00%	-6.30%	0.00%	0.00%	-6.70%	2.10%	2.50%

 # 4 Bedroom House
^ 2 Bedroom Unit
** All houses/units included, irrespective of no. of bedrooms*
Source: CoreLogic RP Data

With guaranteed rental increases and no vacancy the Fund properties are not susceptible to the normal fluctuations of the rental market. Table 5, shows the average vacancy rates by capital city for a 7 and 14 year period. Based on data gathered by BIS Shrapnel, the average tenancy runs for 18 months, and periods of vacancy per annum vary from capital city from 0.77 week per annum in Sydney to 1.58 weeks per annum in Hobart. This vacancy period under normal rental arrangements would attract no rental income and re-letting costs to secure a new tenant.

Table 5: Average annual vacancy per capital city

Average vacancy rates by capital city, 2000 to 2014 by weeks Based on $450/week rent								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Canberra	Darwin
2000–2014	2.3	2.6	2.4	2.1	3.1	2.6	2.5	4.0
2000–2007	3.0	3.2	2.3	2.1	3.1	2.2	2.7	5.5
2007–2014	1.5	1.9	2.5	2.1	3.0	3.0	2.2	2.4
Average annual vacancy (wkly)	0.77	1.02	1.30	1.11	1.57	1.58	1.17	1.26
Vacancy cost ($)	345	361	488	359	728	530	515	829

Source: BIS Shrapnel

Without the rental guarantee provided by DHA on the Fund properties, there would a potential loss of $51.5k per annum based on the BIS Shrapnel assumptions applied to the Fund portfolio.

The guaranteed rental increases further protects the Fund asset base, as it guarantees growth in income even in periods of market instability. Table 6, produced by BIS Shrapnel details the instability of the rental market, especially in regions such as Melbourne, Brisbane and Darwin.

Table 6: Rent fall over 14 year period

Periods of rent fall over the 14 years to June 2014								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Canberra	Darwin
Weeks of rent fall	26	195	195	143	156	169	143	182
% of weeks in 14 year period of rent falls	3.6%	26.8%	26.8%	19.6%	21.4%	23.2%	19.6%	25.0%

Source: BIS Shrapnel

Unitholder information

Should you have any enquiries regarding your unitholding, you should contact White Outsourcing on (02) 8262 2800. If you have any questions regarding your investment in DHA Residential Property Fund No.1 you should speak to your financial advisor in the first instance or contact us on 139 342.

How to contact DHA Investment Management Limited.

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Disclaimer

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