

Date of issue

04.07.05

Initiating Coverage

INVESTMENT DATA

Unit Price	\$1.17
Issued Capital	
Ordinary Units	27.35m
Options	0.00m
Fully Diluted	27.35m
Market Capitalisation	\$32.00m
Low/High	\$1.00 / \$1.18
Valuation	\$1.25
Price Target (12 months)	\$1.25
Net Debt / Shareholders' Funds (Dec 04)	154%
NTA (per unit, Dec. '04)	\$0.96

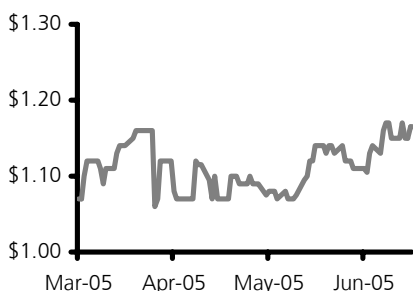
Top 20 shareholders hold 45.4% of issued units.

Year end Dec		05f	06f	07f
Total income	\$m	11.6	19.4	20.5
NOP	\$m	10.6	17.2	18.2
EPU	¢	10.9	10.2	10.8
EPU growth	%	N/A	-6.2	6.1
PER	x	10.7	11.5	10.8
DPU	¢	11.45	11.65	11.83
Yield	%	9.8	10.0	10.1
Tax deferred	%	80.0	80.0	80.0

Note 1: Forecast 2005 distribution differs for current unitholders and those participating in current equity raising

Note 2: Forecasts assume GSA Portfolio acquisition is approved by unitholders

Share Price Chart: RAT



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Rubicon America Trust (RAT)

Buy 2

Dramatic diversification play

\$1.17

US property investment vehicle Rubicon America Trust's (RAT) proposed participation in a \$626 million acquisition of a portfolio of offices—the "General Services Administration Portfolio" - will propel it forward in terms of diversity and size and closer to contention for a position in the key S&P indices, without sacrificing yield.

RAT's policy of hedging 100 per cent of its currency exposure for the mid-term should allow it to maintain a distribution yield of more than 10% by raising its gearing, measured as net debt-to-net debt plus equity, to 73%. It should be noted, however, that this level of gearing is substantially above the average for listed property trusts of about 35%.

RAT has announced a 1:1 rights issue and accompanying public offer to provide \$154 million of funding for the transaction, of which a small portion will go towards refinancing the Maitland 200 office building it recently acquired in Orlando, Florida.

The GSA Portfolio will be managed by Washington DC-based NGP Capital, a property investment and management group focused on properties with federal government tenants.

Assuming completion of the GSA Portfolio deal, RAT now expects to pay a distribution of 11.65 cents a unit in 2006, representing a yield of 10.7% on the expected average issue price for the GSA Portfolio capital raising of \$1.09 a unit.

Prior to securing the GSA Portfolio, RAT had forecast a distribution of 11.75 cents in 2006.

Unitholders must first approve the transaction and associated \$154 million capital raising at the Extraordinary General Meeting to be held on 13 July 2005 at 10.00am in Sydney.

Delivering on strategy

RAT's proposal to buy an 80.1 per cent stake in 13 office blocks and 1 industrial facility - the "General Services Administration Portfolio" - is in line with the goals set by management 8 months ago in the prospectus for its IPO.

RAT's Acquisition and Capital Raising

GSA Portfolio Acquisition

Total price of GSA Portfolio	\$US479m
RAT's 80.1% share of GSA Portfolio	\$US384m
Plus transaction-related fees	\$US25m
less RAT's share of debt facility	\$US312m
Total equity required	\$US97m
Funds to refinance Maitland 200 asset	\$US7m
Total US investment	\$US104m

\$A Equity Financing Requirements

Total US investment at \$US/\$A 0.7657	\$136m
Issue costs	\$2m
Underwriting fee	\$5m
Cash collateral	\$11m
Working capital	\$0.33m
Total funds required	\$153m

Capital Raising

1:1 rights issue at \$1.07 a unit	\$29.3m
Public offer at \$1.10 a unit	\$125.2m
Total	\$154.5m

The acquisition delivers diversity of geography and reduces the lease renewal risk contained within RAT's original portfolio of 5 office blocks on 3 locations.

The GSA, which leases space on behalf of US government bodies, will emerge as RAT's cornerstone tenant.

RAT has stayed true to its promise to invest in "stable income-producing real estate" and to diversify its portfolio by property class, location, tenant and lease maturity.

Valuation

We are initiating coverage with a valuation of \$1.25, ex-distribution (ex-date was Friday, June 24). This valuation incorporates a terminal cap rate of 8.5%, a risk free rate of 5.1% and a beta of 0.9. At \$1.25 RAT would yield 9.3% based on 2006 expectations.

Overview

RAT listed on the ASX on 6 December 2004, following an IPO that raised \$27.4 million, with units issued for \$1 each. It is essentially an ASX-listed, externally managed, holding trust for a US Real Estate Investment Trust. It is managed by Rubicon Asset Management.

The seed assets - the "Parkway Portfolio" of 4 office buildings on 3 locations - were acquired for \$US69.3 million by RAT and NYSE-listed Parkway Properties. RAT took an 80% interest in the Parkway Portfolio, funded by a \$US44.8 million debt facility and RAT's \$27.4 million IPO.

RAT invests and borrows in \$US and hedges all of its foreign currency exposure, while borrowing at fixed rates. This gives investors a great level of certainty regarding Australian dollar returns for the next 6.5 years (the minimum period for which hedging over all assets has been secured).

Since first announcing the GSA Portfolio acquisition on June 6, RAT has also settled the acquisition of the Maitland 200 office property in Florida.

Parkway Properties purchased the Maitland property in January 2004 for \$US26.2 million and has now sold 80% of

the property to RAT at a valuation of \$US29.6 million.

In good company

RAT's new focus on government tenants is not without precedent for listed vehicles. Government Properties Trust, a REIT focused exclusively on securing properties with long-term leases to various government bodies, conducted an IPO and listed on the New York Stock Exchange in January 2004. It has a market capitalisation of \$US195 million.

Government Properties Trust is self-managed and self-administered and has built a portfolio of 15 properties with more than 1,158,000 square feet that are primarily leased by government bodies via the GSA. About 94% of total rentable space is under lease.

Like RAT, Government Properties Trust deemed it reasonable, given the credit worthiness of its governmental tenants, to use debt to finance about 75% of the acquisition cost of properties that it buys.

Government Properties Trust is currently priced on a gross dividend yield of 6.45%, according to Bloomberg data.

RAT's GSA Portfolio Acquisition

Property	Price (\$USm)	\$US per square ft.	Purchase Yield
E. Centre Tech Parkway	7.9	67.8	10.20%
1900 River Road	99.3	94.7	8.50%
696 Virginia Road	25.2	241.1	6.90%
1433 West Loop South	14.9	108.0	7.10%
4820 University Square	16.9	124.5	7.50%
901 N. Fifth Street	44.3	217.7	7.70%
755 Parfet Street	6.6	79.7	8.00%
150 Corporate Boulevard	4.2	78.0	10.40%
1600 Callow hill Street	16.6	187.1	7.50%
380 Westminster Street	14.8	113.3	11.70%
1325 J Street	73.3	223.8	7.30%
8808 & 8810 Rio San Diego Drive	26.1	180.8	8.80%
116 Lakeview Parkway	67.4	192.0	7.10%
999 E Street Parkway	61.7	380.8	5.20%
Average	34.2	163.5	8.14%

Government Properties Trust's Recent Acquisitions

Property	Price (\$USm)	\$US per square ft.	Purchase Yield
Niagra Center	70.6	263.4	5.95%
1201 Lloyd Boulevard	49.0	218.8	7.14%
Phase I of Bureau of Public Debt HQ	19.9	245.7	8.25%
Phase II & III of BPDH (yet to be built)	22.5	220.6	8.74%
United States Citizenship and Immigration : FDA Building	10.4	288.9	8.39%
FDA Building	22.3	348.4	7.26%
Hollings Judicial Center Annex	19.0	311.5	7.87%
Veterans Administration Outpatient Clinic	5.9	196.7	8.44%
FDA District HQ	10.5	198.1	9.12%
Average	25.6	255	7.91%

Comparisons between RAT's GSA Portfolio and the properties acquired by Government Properties Trust demonstrate that, on average, both investment vehicles have made their acquisitions at similar initial purchase yields.

RAT has paid less per square foot than Government Properties Trust, which can be attributed to differences in geography and in the average age of the property portfolios (RAT's is older).

The General Services Administration

The GSA Portfolio is 98.6% occupied, with 93.8% leased to a variety of US Federal Government departments and agencies through the General Services Administration (GSA). The weighted average lease expiry of the GSA portfolio is 6 years, based on income.

Assets are spread across the US in the states of Colorado, New Jersey, Massachusetts, Texas, Alabama, Kansas, Colorado, Virginia, Pennsylvania, Rhode Island, California, Virginia and Washington DC.

The property in New Jersey introduces an industrial element to the portfolio - it is a federal supply base covering 1,048,631 square feet. This asset will give RAT a 17% weighting to industrial property.

The US Federal Government's office-space requirements are secured by the GSA. Because government bodies are facing significant budgetary constraints, it is expected that government entities will increasingly lease properties instead of building and owning properties.

The GSA provides workspace for over 1.1 million federal workers and about half these employees are located in over 6,400 leased buildings across the US. GSA leases cover more than 166 million square feet.

The average GSA lease—for its entire portfolio rather than the RAT assets - is set to expire in just over 4 years and covers 19,600 square feet of rentable space. The GSA's average annual rent is currently \$US22.45 per square foot, according to its lease schedule, published 3 June 2005. RAT cites data showing GSA has renewed its leases 80 per cent of the time.

GSA leases are generally modified gross leases. These leases generally cover increases in real estate taxes above a base amount and increase that portion of the rent applicable to other operating expenses by an agreed upon percentage, based upon the Consumer Price Index.

Terms for GSA leases are usually 5 to 10 years.

Exit strategy

RAT is not intended to be a passive long-term investment vehicle. Given it has hedged its investments – both the debt and currency on the Parkway Portfolio are fixed for 7 years while debt on the GSA Portfolio is fixed for 10 years and currency for 7 years – RAT's management considers the expiry of these hedges as the most opportune time to sell. This was stated explicitly in the IPO prospectus where Rubicon Asset Management declared its intention "to make a recommendation to investors in approximately seven years time on the sale of the properties in the initial portfolio".

It is important to note that the majority of RAT's value depends upon the value of its property investments after the initial 7 year hedging period expires. If it is assumed that RAT will sell its assets as its hedges unwind, then prevailing property prices at that point in time will dictate the return on RAT's investments. In the absence of a sale, the value of RAT's investments will be dependent to a large extent on management's ability to secure favourable hedging positions.

Cap rates, a measure of property income over price, are often used to value properties. The lower the cap rate, the higher the valuation.

US office cap rates fell slightly during the March quarter, averaging 7.5% compared to 7.6% in the December quarter, according to data from REIS. Year-over-year, the average cap rate has dropped by 80 basis points.

We have assumed a more conservative cap rate on RAT's US investments of 8.5% in calculating our terminal value, which is closer to average rates over the past 15 years.

Terminal Cap Rate Sensitivity

Cap Rate	NPV / unit
7.50%	\$1.54
8.00%	\$1.38
8.50%	\$1.25
9.00%	\$1.12
9.50%	\$1.01
10.00%	\$0.91
10.50%	\$0.82
11.00%	\$0.74
11.50%	\$0.67
12.00%	\$0.60

A lower cap rate estimate would result in a higher estimate of RAT's net present value.

Future acquisitions may help diversify away the risk of any single portfolio's hedge unwinding at a single point in time.

Future opportunities

RAT's management has now secured alliances with two US property management specialists – Parkway and NGP Capital. It has intentionally avoided tying itself to any one particular US party, in contrast to the relationship that exists between Macquarie DDR and US-based Developers Diversified Realty, which has a 50 per cent stake in Macquarie DDR's management vehicle.

One opportunity has been previously publicised. Rubicon Asset Management has secured 6 industrial properties in the US covering 1.43 million square feet, located in the states of Wisconsin, Pennsylvania and Georgia. The properties were sold for \$US42.15 million, with Rubicon Asset Management taking an 85% stake. Two new partners, True North Investments and Industrial Advisers (an affiliate of JMB Realty Corp), took the remaining 15%.

Rubicon Asset Management does not deem this industrial portfolio to be stable enough for it to be injected into RAT at this point in time but intends to do so in future, potentially within 12 months.

A \$150 million funding facility provided by Record Investments will continue to provide Rubicon Asset Management with the financial flexibility to secure deals without needing to first raise new funds from investors.

Funding distributions

RAT has utilised bridge finance in order to settle its acquisition of the GSA Portfolio prior to its capital raising. Existing RAT unitholders have been exposed to the GSA Portfolio since settlement occurred on June 9, although the transaction will be unwound if unitholders do not vote in favour of it.

Units issued in the current public offer and rights issue will become entitled to distributions from RAT from September 1, 2005. That means there is a period of almost 3 months during which the GSA portfolio will contribute cashflow to RAT without equity funding.

RAT will use some of the cash from this

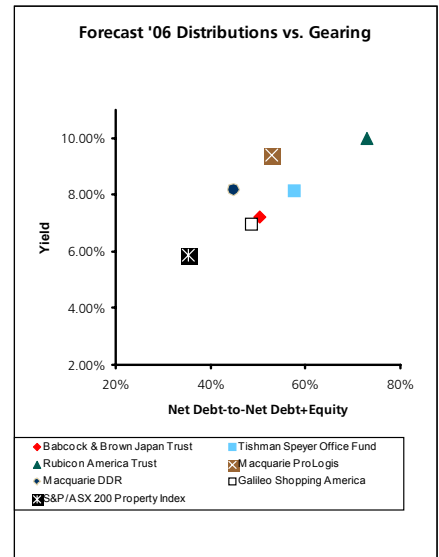
three month period to ensure it meets its distribution promises in both calendar 2005 and calendar 2006.

Having already declared distributions totalling 6.475 cents for the first half of 2005 (this includes 0.725 cents for the period from RAT's listing on December 6 to December 31), RAT has said in the documents detailing its GSA Portfolio transaction that it will deliver an annualised distribution of 10.5%, based on a unit price of \$1.09, in the second half of 2005, which equates to 5.7 cents a unit.

Units issued as part of the current capital raising are expected to receive a pro-rata distribution for the period from September 1 to December 31, equating to 3.8 cents a unit.

To deliver on its 2005 forecasts, we estimate RAT will distribute \$8.9 million to unitholders from about \$11.3 million in cash available.

The remaining cash will be placed in reserve but partially re-deployed to meet its 2006 distribution forecast.



RAT will have 169 million units on issue for all of calendar 2006, in the absence of further capital raisings, and its cash flow will fall short of the forecast 11.65 cents distribution. We estimate reported earnings per unit of 10.2 cents in 2006. RAT intends to fund the difference by distributing some of the cash it reserved from calendar 2005.

Rubicon America Trust (RAT)

Share price: \$1.17

4/07/2005

Market cap (\$m): 32.00

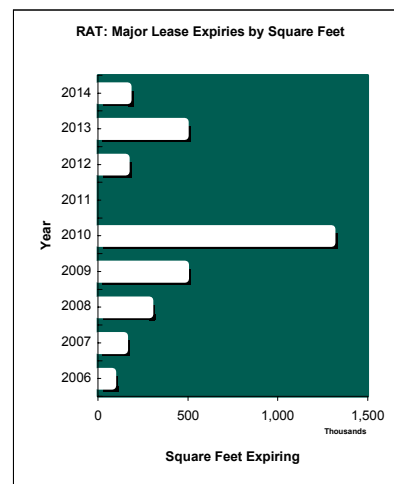
Income Statement

	Pre-GSA		Assuming GSA Portfolio transaction proceeds					2010f	2011f
	2004a	2005f	2005f	2006f	2007f	2008f	2009f		
Net property income (\$USm)									
Parkway Portfolio	0.26	6.17	6.84	8.70	8.89	9.20	9.52	9.85	10.19
GSA Portfolio			18.50	36.40	36.47	37.42	37.81	38.58	43.62
Total	0.26	6.17	25.34	45.10	45.36	46.62	47.33	48.43	53.81
Interest	0.13	2.54	13.57	24.60	24.60	24.60	24.60	24.47	24.13
Other expenses		0.05	0.01	0.11	0.12	0.12	0.12	0.12	0.12
Net property income after interest	0.13	3.57	11.77	20.38	20.64	21.90	22.61	23.84	29.56
Less minority interests	0.03	0.845	2.29	3.88	4.16	4.41	4.55	4.77	5.91
US REIT's share of net property income	0.10	2.73	9.48	16.50	16.49	17.49	18.06	19.07	23.65
US REIT Expenses (\$USm)									
Management fees	0.01	0.42	1.69	3.36	2.70	2.70	2.70	2.70	2.70
Other expenses		0.10	0.08	0.24	0.24	0.25	0.26	0.27	0.27
Amortisation of debt establishment costs	0.01	0.09	0.18	0.25	0.25	0.25	0.25	0.25	0.25
REIT minority interests	0.00	0.01	0.02	0.01	0.01	0.01	0.02	0.02	0.02
US withholding tax	0.01	0.09	0.24	0.37	0.46	0.50	0.52	0.55	0.71
US REIT distributable income	0.07	2.02	7.27	12.28	12.82	13.78	14.32	15.29	19.69
Australian Dollars (\$m)									
Average exchange rate	0.78	0.67	0.68	0.67	0.67	0.67	0.67	0.67	0.67
Distribution from US REIT	0.10	3.00	10.68	18.30	19.11	20.55	21.35	22.79	29.36
Income from capital hedge	0.11	0.27	0.33	0.19	0.19	0.19	0.19	0.19	0.19
Interest income	0.04	0.42	0.61	0.95	1.20	1.01	0.90	0.77	0.80
Total income	0.25	3.69	11.62	19.44	20.50	21.75	22.44	23.74	30.35
RAT Expenses (\$m)									
Manager fee	0.02	0.205	0.15	0.29	0.29	0.29	0.29	0.29	0.29
Administration & other costs	0.01	0.324	0.84	2.00	2.00	2.00	2.00	2.00	2.00
Net operating profit	0.22	3.16	10.63	17.16	18.22	19.46	20.16	21.46	28.07
Earnings per unit (\$)	0.008	0.115	0.109	0.102	0.108	0.115	0.120	0.127	0.167
Distribution (\$m)									
Operating Profit (before amortisation)	0.22	3.18	10.89	17.53	18.59	19.83	20.53	21.83	28.43
Transfer from capital (lease incentives)	0.17	0	0.22	0.58	0.58	0.60	0.62	0.64	0.66
Payout ratio	88.39%	100.00%	78.00%	111.99%	107.44%	103.02%	99.92%	52.13%	51.15%
Transfer to/from reserves	0.19	0.00	-2.61	1.52	0.80	0.00	0.00	0.29	0.00
Cash distribution to investors	0.20	3.18	8.50	19.63	19.97	20.43	20.51	11.38	14.54
Units on issue (m)	27.4	27.4	98.0	168.6	168.6	168.6	168.6	168.6	168.6
Cash distribution per unit (\$)	0.0073	0.1162	<i>see table</i>	0.1165	0.1185	0.1212	0.1217	0.0675	0.0863

Forecasts do not include potential outperformance fee, which is 20% of the amount by which the ASX accumulation index for RAT units exceeds 12% a year

Balance Sheet

	Pre-GSA	Assuming GSA transaction proceeds				Meeting 2H '05 distribution yield promise:	
	2004a	2004pf	2005f	2006f	2007f		
Current Assets							
Cash	11.20	23.10	27.44	21.47	18.05	First half distribution per unit	\$0.0575
Receivables & others	0.81	10.40	10.30	11.74	11.93	Units on issue (m)	27.35
Total current assets	12.01	33.50	37.74	33.21	29.98	Total 1stH distribution (\$m)	1.57
Non-current Assets							
Property investments	91.99	776.21	777.29	778.20	779.25	New units issued (m)	141.21
Receivables from capital hedge	1.64	1.64	1.64	1.64	1.64	2ndH distribution for old units	\$0.0570
Capitalised borrowing costs	1.37	7.38	7.13	6.89	6.64	2ndH distribution for new units	\$0.0380
Total non-current assets	95.00	785.23	786.06	786.72	787.52	Total 2ndH distribution (\$m)	6.925
Total Assets	107.01	818.73	823.80	819.93	817.50	Annualised 2H yield for new units	10.5%
						<i>Yield based on average issue price of \$1.09</i>	
						Cash available for distribution (\$m)	11.11
Current Liabilities						Total distribution (\$m)	8.50
Payables	0.64	0.64	0.60	0.78	0.80	Total cash remaining (\$m)	2.61
Provisions & other	1.70	1.70	1.75	2.27	2.32	<i>Units to be issued to fund the GSA Portfolio are entitled to distributions from September 1, 2005</i>	
Total current liabilities	2.34	2.34	2.35	3.05	3.11		
Non-current Liabilities							
Interest-bearing liabilities	66.73	599.99	599.99	599.99	599.99		
Deferred gains/losses on capital hedge	1.82	1.82	1.82	1.82	1.82		
Total non-current liabilities	68.55	601.81	601.81	601.81	601.81		
Total Liabilities	70.89	604.15	604.16	604.86	604.92		
Net Assets	36	215	220	215	213		
Equity							
Contributed capital	27.35	181.86	181.86	181.86	181.86		
Foreign exchange reserve	0.17	0.20	0.20	0.20	0.20		
Reserves	0.00	0.18	2.58	0.47	-0.91		
Retained earnings	0.21		2.34	-0.13	-1.87		
Issue costs	-1.45	-8.27	-8.27	-8.27	-8.27		
Total parent equity interest	26.28	173.97	178.71	174.14	171.01		
Outside equity interest	9.85	40.99	40.99	40.99	40.99		
Total equity	36	215	220	215	212		
Units on issue	27.35	168.56	168.56	168.56	168.56		
NTA per unit (excluding outside equity interests)	0.96	0.99	1.02	0.99	0.98		
Ratios							
Net debt-to-equity	154%	268%	261%	269%	275%		
Net debt-to-net debt+equity	61%	73%	72%	73%	73%		
Interest cover	2.1x	2.4x	1.9x	1.8x	1.8x		



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