

# People. Strength. Performance.



14.8%

12 month return  
on equity

\$4.95

Net tangible assets  
per unit

12.9%

12 month portfolio  
return

\$4.0bn

Total portfolio value

97%

Portfolio  
occupancy

4.8 years

Weighting average  
lease expiry

# Letter from the Fund Manager



*“IOF’s high quality diversified portfolio continues to perform well, achieving a 14% total return per annum over the last three years. This is reflective of the composition and strength of the portfolio and the specialist management skills of the Investa office management platform.”*

## Dear Unitholder

I am pleased to report another period of high returns supported by proactive asset management and positive market fundamentals. The Fund delivered a Return on Equity<sup>1</sup> of 14.8% for the 12 months to 31 December 2017, supported by a portfolio total return of 12.9% over the same period.

Funds From Operations (FFO) per unit grew by 2.7% compared to the 6 months to 31 December 2016. This was driven by strong portfolio like-for-like FFO growth of 5.1% together with a 2.5% buy-back of units undertaken during the period, whilst the divestment of two non-core assets in early 2017 had a moderating effect. Distributions per unit increased by 1.5% and Net Tangible Assets per unit increased by 3.3% over the half year period to \$4.95.

Statutory net profit was \$151.2 million, 32.5% less than the previous corresponding period (pcp) due primarily to lower valuation uplifts. Only five properties were externally valued at 31 December 2017 compared to 11 properties at 31 December 2016. All 20 properties in the portfolio were also externally valued at 30 April 2017.

## Portfolio benefiting from high allocation to Sydney and active asset management

The Fund’s portfolio is benefiting from a 63% weighting to the Sydney and North Sydney office markets which are experiencing solid tenant demand, limited new supply and the continued withdrawal of office stock. Rent levels continue to increase, particularly in the A and B grade markets. IOF’s portfolio occupancy remains high at 97% with a weighted average lease expiry (WALE) of 4.8 years.

Over the period 42 leases were completed across 20,934 sqm, including 11,692 sqm of leasing across 27 deals in Sydney, a seven year lease over 3,536 sqm to the State of Queensland at 140 Creek Street, Brisbane, and an Agreement for Lease (AFL) with Pfizer, an international biopharmaceutical group, across 4,460 sqm at IOF’s prime Sydney office tower development, Barrack Place.

The Fund also announced a non-binding Heads of Agreement (HoA) with ANZ at 347 Kent Street, Sydney for a lease renewal over at least 15,821 sqm, or 63% of the building’s office net lettable area (NLA), for five years from January 2019. The HoA provides ANZ with the potential to commit to an additional 4,170 sqm by 31 May 2018.

The Melbourne portfolio, which makes up 16% of total portfolio value, remains securely positioned with a long WALE of 11.5 years and 100% occupancy. The Brisbane portfolio, at 15% of the total portfolio, continues to benefit from improving office market conditions with occupancy now at 92%.

The Perth portfolio, representing just 4% of total portfolio, is supported by a WALE of 5.6 years, however challenging market conditions continue to weigh on the portfolio’s occupancy at 89%. Sentiment is improving in this market, however the recovery is anticipated to be gradual.

## Three major Sydney projects

IOF has three major projects in Sydney which are either currently underway or planned for the near term. All three are expected to add to the portfolio’s quality and returns.

- The prime grade 22,000 sqm **Barrack Place development at 151 Clarence Street, Sydney** is on target for practical completion in October 2018. The structure is complete to level 13 out of 18 and the new AFL to Pfizer increases the pre-commitment level to 57%.
- ANZ’s HoA at **347 Kent Street, Sydney** reduces potential downtime and provides a significant income stream whilst the building is being repositioned. Major refurbishment works including the main entrance foyer and end of trip facilities are on track to commence in January 2019 when ANZ’s current lease expires.
- The extensive refurbishment of **388 George Street, Sydney** is planned post IAG’s departure in October this year. Multiplex has been engaged to provide Early Contractor Involvement during the current detailed design phase.

## Active capital management

IOF’s gearing as at 31 December 2017 remains low at 23.8% providing capacity to fund committed value add and development expenditure. The Fund’s weighted average debt expiry remains at 4.7 years and the weighted average cost of debt reduced to 4.0%.

In August the Fund announced the potential on-market buy-back of up to 5% of IOF’s units, and acquired 2.5% of units at an average price of \$4.48 during the period. Going forward IOF will continue to consider the potential buy-back of units subject to market conditions and capital investment requirements and opportunities.

## Well positioned portfolio

The Fund is well positioned to provide continued attractive returns for Unitholders given its high quality portfolio, prime grade exposure to the attractive Sydney market, value-add capital works pipeline, and strong balance sheet. FFO guidance for FY18 is 30.3 cents per unit and distribution guidance is 20.3 cents per unit, representing an increase on FY17 of 2% and 0.5%, respectively.

## Gai McGrath appointed as new Independent Director

I would like to welcome Gai McGrath who was appointed as an Independent Director of the Investa Listed Funds Management Limited (ILFML) Board. Gai has had an extensive career as a senior executive within the financial services industry and will bring additional experience, expertise and diversity to the ILFML Board.

## Thank you

On behalf of the IOF team, I would like to take this opportunity to thank you for your support.

**Penny Ransom**  
Group Executive, Fund Manager, IOF

<sup>1</sup> Increase in Net Tangible Assets (NTA) plus distributions.

# Strategic objectives



## IOF strategy:

To deliver attractive risk-adjusted returns investing in high quality Australian office buildings, leveraging Investa's fully integrated specialist property sector capabilities to outperform. This will be achieved by:

### Active Asset Management

Active asset management of the portfolio to drive income and capital returns

### Value Add & Development Activity

Identifying and implementing value add and development opportunities to create high quality core assets

### Selective Acquisitions & Divestments

Enhancing portfolio quality, scale and diversification with selective acquisitions and divestments

### Prudent Capital & Risk Management

Applying a prudent approach to capital and risk management

### Responsible Investment

Ensuring best in class responsible investment – environmental, social and governance

*“The IOF vision is to be Australia’s leading listed specialist office fund.”*

# Portfolio overview



Brisbane	
Number of properties	5
Book value (\$m)	\$592.6
% of IOF portfolio value	14.9%
Occupancy <sup>1</sup>	92.1%
WALE <sup>2</sup>	4.6 years

Melbourne	
Number of properties	2
Book value (\$m)	\$619.8
% of IOF portfolio value	15.6%
Occupancy <sup>1</sup>	99.8%
WALE <sup>2</sup>	11.5 years

Canberra	
Number of properties	1
Book value (\$m)	\$99.8
% of IOF portfolio value	2.5%
Occupancy <sup>1</sup>	100.0%
WALE <sup>2</sup>	8.1 years

Perth	
Number of properties	2
Book value (\$m)	\$140.9
% of IOF portfolio value	3.6%
Occupancy <sup>1</sup>	88.9%
WALE <sup>2</sup>	5.6 years

Sydney / North Sydney	
Number of properties	10
Book value (\$m)	\$2,514.0
% of IOF portfolio value	63.4%
Occupancy <sup>1</sup>	98.0%
WALE <sup>2</sup>	3.0 years

<sup>1</sup> Weighted by income.

<sup>2</sup> Weighted Average Lease Expiry.

Investa has been focused on achieving IOF's objectives, delivering continued fund and portfolio performance for the benefit of Unitholders.



### Performance

12 month Return on Equity<sup>1</sup>

14.8%

12.9%

12 month portfolio total return<sup>2</sup>

3.0% pa compound average distribution growth since December 2012



### Active Asset Management

60%

of FY18 expiry secured<sup>3</sup>

ANZ HoA at 347 Kent Street (minimum of 15,821 sqm)

FY19 expiry reduced from 25.0% to 19.2%<sup>4</sup>

Occupancy remains strong at

97%

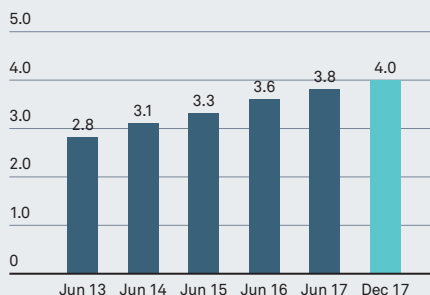


### Value Add and Development Activity

Barrack Place development on schedule and pre-commitment increased to 57%

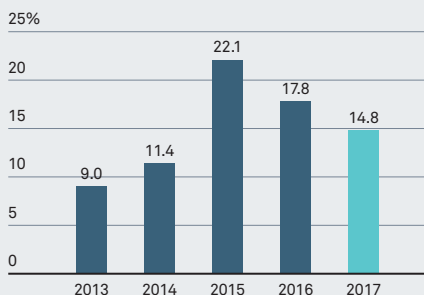
*347 Kent Street repositioning and 388 George Street refurbishment progressing*

Book value (\$bn)



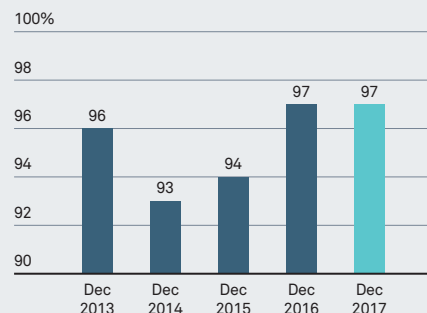
IOF's high quality portfolio continues to grow with assets providing strong valuation movements.

Calendar year Return on Equity<sup>1</sup> (%)



IOF has provided another year of strong total returns for unitholders. Over the last three years the average Return on Equity was 18.2%.

Occupancy (%)



Proactive asset management has resulted in high portfolio occupancy of 97%.



### Selective Acquisitions and Divestments

No transactions during the period

Continually reviewing compelling acquisition and disposal opportunities



### Prudent Capital and Risk Management

23.8%

Prudent gearing

Repaid \$125 million of MTNs

Accretive 2.5% buy-back of IOF units

Low cost of debt at

4.0%



### Responsible Investment

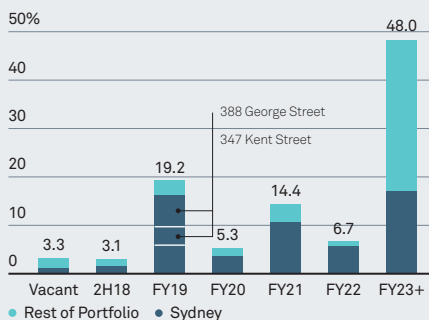
*Gai McGrath, new Independent Director, appointed*

6.3%

reduction in carbon emissions relative to 1H17

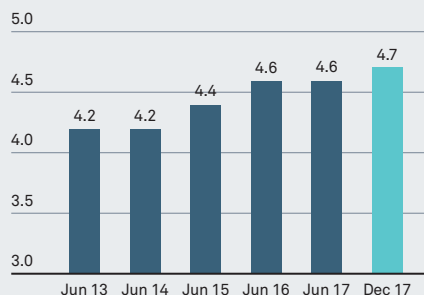
*Rollout of INSITE tenant engagement program<sup>5</sup>*

### Lease expiry profile by income<sup>6</sup> (%)



Including ANZ's, HoA FY19 expiry has reduced from 25.0% at 30 June 2017 to 19.2%. The portfolio is well positioned to take advantage of the outperforming Sydney market where over 75% of leasing exposure to June 2020 is located.

### NABERS<sup>7</sup> Energy (Stars)



The portfolio's NABERS energy rating continues to improve. This demonstrates the outcomes of strategic capital investment in energy saving initiatives and active asset management.

- 1 Increase in Net Tangible Assets (NTA) plus distributions.
- 2 Movement in portfolio book value plus net income.
- 3 Including Heads of Agreement (HoA).
- 4 Including ANZ HoA.
- 5 An integrated tenant service portal and concierge service.
- 6 As at 31 December 2017 and includes ANZ HoA.
- 7 National Australian Built Environment Rating System.



# Portfolio highlights



## Sydney portfolio continues to outperform

**63%**  
of portfolio in Sydney or North Sydney

**15.4%**  
Average face rental uplift

**98%**  
Sydney portfolio occupancy

IOF's portfolio is benefiting from a 63% total weighting to the outperforming Sydney market. The Fund's A and B grade assets in Sydney, which represent over 50% of the total portfolio, performed well achieving 6.5% like-for-like growth. The Sydney portfolio delivered a strong total return of 15.3% over 2017.

Limited supply and strong tenant demand continues to put upward pressure on rents, resulting in an average face rental uplift on new leases of 15.4%. Incentives remain low, averaging between 10 - 15% for smaller tenant leases, which made up the majority of new leases over the period. Higher face rents and lower incentives have combined to result in average effective leasing spreads of 29%. Looking forward the Fund is well positioned to take advantage of the strong Sydney market where over 75% of leasing exposure to June 2020 is located.

On the valuation front, 73% of the \$80.8m increase over book value as at 31 December 2017 was due to the two Sydney assets revalued, 6 O'Connell Street and Piccadilly Complex. These increases were supported by effective rent growth and capitalisation rate compression.



## Melbourne portfolio securely positioned

**100%**  
Occupancy

**11.5 years**  
Weighted average lease expiry

**2031**  
Telstra renewed to October 2031 at 242 Exhibition Street

The Melbourne portfolio, representing 16% of total portfolio value, is securely positioned with a long WALE of 11.5 years and 100% occupancy. The portfolio is made up of two high quality assets, 567 Collins Street which was only recently built, completing in July 2015, and 242 Exhibition Street where the whole of building tenant Telstra has renewed to October 2031. These two assets combined have provided a high 12.7% three-year per annum return to 31 December 2017.

The Melbourne CBD had another strong year with continued growth in the size of its broad based white collar work force. This was due to positive economic conditions, population growth, tenants moving into the CBD from the fringe and suburban markets, and the affordability benefit particularly when compared to Sydney. Over the medium to long term a number of new office developments are expected to ease market conditions.



## Brisbane portfolio continues to improve

**92%**  
Occupancy

**15.9%**  
Brisbane portfolio return over 2017

**4.6 years**  
Weighted average lease expiry

IOF's five asset Brisbane portfolio, which makes up 15% of total portfolio, continues to benefit from improving office market conditions. The portfolio delivered an attractive portfolio return of 15.9% over 2017.

Underlying demand for Brisbane CBD office space, particularly by government tenants, and subdued development activity is expected to support office leasing market conditions in 2018. Absorption of prime office space is outperforming the secondary markets with a number of tenants upgrading their premises.

The results attained at 140 Creek Street, IOF's largest Brisbane asset, are a good example of the specialist management skills of the Investa team. Post upgrading the building in 2014 and 2015, and followed by a targeted leasing campaign during a very challenging market environment, occupancy increased from 61% to close to 100% and the WALE to in excess of 5 years. During this difficult period until now, the asset achieved an unlevered internal rate of return of 10.7%.



## Barrack Place, 151 Clarence Street, Sydney Development

**Oct 2018**

Target completion date

**6 Star**

Green Star Office Design rating

**57%**

Pre-commitment level

IOF's prime 22,000 sqm Barrack Place development at 151 Clarence Street, Sydney is on target for practical completion in October 2018, an optimum point in the cycle with minimal competing supply entering the market. The structure is complete to level 13 out of 18 and the building has been awarded a 6 Star Green Star Office Design rating.

The new AFL to Pfizer increases the pre-commitment level to 57% of total net lettable area (NLA) and six out of 19 retail tenancies are leased or in HoA. The dynamic retail component, which will make up 7% of NLA and be known as "the Laneway", will add a high level of amenity for tenants in this growing and vibrant part of the CBD.



## 347 Kent Street, Sydney

**7.4%**

of IOF portfolio

**63%**

of office net lettable area re-leased to ANZ

**5 years**

lease to ANZ from January 2019

This A grade, inner city building, which makes up 7.4% of IOF's portfolio, will undergo a major refurbishment including the repositioning of the entrance foyer, new end of trip facilities, creation of a new commercial space in the current atrium, and a full mechanical upgrade. 347 Kent Street is well located in a prominent position in the CBD's western precinct, enjoying views over Darling Harbour and out to Pyrmont Bay.

ANZ, the single office tower tenant, has agreed to a non-binding HoA for a lease renewal over at least 15,821 sqm for five years from the current lease expiry in January 2019. The HoA represents 63% of the building's office NLA and provides ANZ with the potential to commit to an additional 4,170 sqm, or 17% of office NLA, by 31 May 2018 depending on ANZ's corporate requirements.

The refurbishment works are expected to take nine to 12 months to complete and will be undertaken from January 2019 while ANZ remain in occupation.



## 388 George Street, Sydney

**5.8%**

of IOF portfolio

**5 atriums**

within the tower to be activated

**28 levels**

to be refurbished

IOF is planning the transformation of this landmark office building which represents 5.8% of the total portfolio. Refurbishment works will include the activation of five atriums within the tower, upgrade of common and tenancy areas, new end of trip facilities, and a full services and mechanical upgrade. It is expected to take 15 to 18 months to complete, commencing on IAG's departure in October 2018. Multiplex has been engaged to provide Early Contractor Involvement during the current detailed design phase.

The opportunity to redevelop the retail forecourt cornering King and George Streets continues to be explored, with the co-owners having a number of positive meetings with council during the period.

The office leasing campaign is well progressed, with the initial focus targeted on larger scale occupants. This centrally located, 28 level building is situated just 50 meters from the Pitt Street Mall.

# Environmental, social and governance

IOF is a global leader in responsible investment, adding value via universal management of Environmental, Social and Governance (ESG) risk.

## Carbon emissions reduction

The Fund continued to make strong progress towards its target of Net Zero Carbon Emissions by 2040, with a 6.3% reduction in carbon emissions compared to the previous corresponding period in 2016. This was principally achieved by our expert facilities management teams running IOF's buildings more efficiently. Over the six months to December 2017 the portfolio's NABERS energy rating improved from 4.64 to 4.76 Stars and IOF maintained its impressive top 2% ranking in the Global Real Estate Sustainability Benchmark (GRESB) Survey, improving its score for the fourth consecutive year.

Management has committed to carbon neutral operations, designing a bespoke emission offset programme for Investa. Initially the programme will offset operational emissions at Investa's head offices in Sydney, Melbourne, and Brisbane, before ultimately being extended to tenants. Much like you can offset your seat on a flight, tenants will be given the opportunity to offset their share of the carbon emitted via base building operations. We believe this will drive tenant awareness and engagement in the transition to a low carbon economy.

## Partnering with tenants

Having made strong progress on the path to Net Zero, Investa is seeking to expand its boundary of influence to include the +100,000 occupants it hosts in office

buildings across the country every day. Investa is committed to facilitating greater health, wellbeing and productivity amongst our tenants and occupants, and as such, is delivering two key engagement programmes;

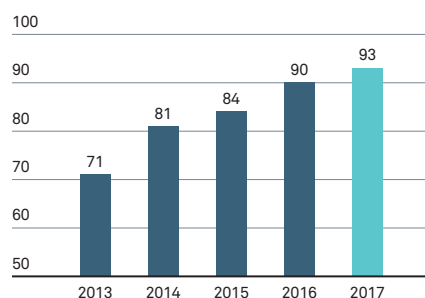
### INSITE tenant engagement program

Available at seven IOF buildings and being rolled out across the portfolio, INSITE is an integrated tenant service portal and concierge service, tenants can use to access a range of time saving services such as dry cleaning, catering, airport transfers, meeting rooms and more. Tenants can also access building news, sustainability information and a range of exclusive offers and promotions.

### Sustainability toolkit for tenants

Management's tenant and occupant focus has delivered a new Sustainability Tenant Toolkit, an online resource providing information in a dynamic format on creating healthy, thriving and sustainable workplaces. The toolkit supports the delivery of Investa's best in class high performance precedent lease. The Toolkit encourages best practice standards in indoor environment quality to support clarity of mind and ultimately greater productivity. In addition, and for the first time, tenants and occupants are able to see performance data regarding building resource consumption and resultant carbon emissions.

## IOF GRESB<sup>1</sup> Score (out of 100)



<sup>1</sup> Global Real Estate Sustainability Benchmark

## Best practise governance

Investa is committed to the highest standards of corporate governance and ethical conduct, recognising both as essential components of Investa's responsibility to investors.

At the Annual Unitholder Meeting on 23 November 2017, Unitholders approved the appointment of Gai McGrath as the fifth Independent Director of the Investa Listed Funds Management Limited (ILFML) Board. Gai has had an extensive career as a senior executive within the financial services industry. Gai has also been appointed as a member of the ILFML Audit and Compliance Committee.

## Get in touch

If you have any questions regarding IOF's reporting or in relation to your unitholding, please call the Investa information line on **+61 1300 851 394**

Further details about the Fund can be accessed and downloaded at [www.investa.com.au/IOF](http://www.investa.com.au/IOF)

### Disclaimer

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