ASX Announcement

8.08.18

Investa Office Fund (ASX:IOF)

Financial Year 2018 in Review

Investa Office Fund (IOF or the Fund) today announced its results for the financial year 2018.

The Fund delivered an 18.4% Return on Equity[1] for the financial year, supported by an unlevered Portfolio Return[2] of 15.9% over the same period. The Sydney portfolio achieved a total return of 21.1% and the Perth portfolio delivered a total return of 16.8%, supported by the open market campaign to divest 836 Wellington Street.

Funds From Operations (FFO)[3] per unit grew by 3.0% compared to the previous corresponding period (pcp), driven by like-for-like FFO growth of 3.6% together with a 2.5% buy-back of units undertaken during the first half of the financial year. This was offset by the sale of two non-core assets in early 2017.

Statutory Net Profit was $521.6 million, 10.6% higher than the pcp, supported by $399.2 million of valuation uplifts resulting from revaluations undertaken in both December 2017 and May 2018, as well as the additional uplift in value resulting from the conditional agreement to sell 836 Wellington Street in Perth. Valuation gains were the primary contributor to the Fund's uplift in Net Tangible Assets (NTA) per unit of 14.2% to $5.47.

Distributions per unit increased 0.5% to 20.3 cents.

Financial highlights:

- FFO of $184.0 million (up 0.8%)
- FFO per unit of 30.6c (up 3.0%)
- Statutory Net Profit of $521.6 million (up 10.6%)
- Distributions per unit of 20.3c (up 0.5%)
- NTA per unit of $5.47 (up 14.2%)
- 12 month Return on Equity of 18.4%

Penny Ransom, IOF Fund Manager, said "IOF has benefited from strong office market fundamentals, particularly in Sydney, North Sydney and Melbourne. Major leasing transactions and the delivery of IOF's development at Barrack Place were also key drivers of performance for the year."

Portfolio highlights:

- 12 month unlevered Portfolio Return of 15.9%
- Portfolio occupancy stable at 97%
- Weighted Average Lease Expiry (WALE) of 4.9 years
- FY19 expiry reduced from 25.0% to 18.2%[4]
- Like-for-like Net Property Income (NPI) growth of 2.1%

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[1] (Change in NTA + total distributions declared) / opening NTA for the relevant period.

[2] Total return based on movement in portfolio book value to 30 June 2018 plus portfolio net income over the same period, as a percentage of total book value.

[3] Property Council Funds from Operations defined as IOF's underlying and recurring earnings from its operations, determined by adjusting statutory net profit (under Australian equivalent to the International Financial Reporting Standards) for non-cash and other items such as the amortisation of tenant incentives and rent free periods, fair value gains / losses on investment property, fair value gains / losses on the mark to market of derivatives, the straight-lining of rent, non-FFO deferred tax benefits and expenses, foreign currency translation reserves recognised in net profit, and any other unrealised or one-off items.

[4] On leases executed, excluding Heads of Agreement.

61,425sqm[5] of leasing was completed during FY18. Major commitments by four tenants accounted for 65% of income secured, de-risking IOF's FY19 expiry profile. Transactions of note included:

- a five year renewal to ANZ Wealth Australia Limited (ANZ) over 17,143 sqm at 347 Kent Street, Sydney from the expiry of their lease in January 2019. This lease represents 68% of the building's office NLA;
- two leases at IOF's development at Barrack Place, 151 Clarence Street, Sydney comprising Pfizer Australia Pty Limited (Pfizer) for 4,640sqm for eight years from 1 December 2018 and Mills Oakley Lawyers Pty Ltd (Mills Oakley) for 5,673sqm for 11 years from 1 January 2019; and
- re-leasing Broadspectrum's 6,337 sqm at 111 Pacific Highway, North Sydney to both Nokia (4,880sqm) and NBN (1,457sqm) with minimal downtime.

Nicole Quagliata, IOF Assistant Fund Manager, said "IOF's Sydney and North Sydney portfolio has benefited from solid tenant demand and limited new supply. In addition to IOF's major tenant leasing success, the Fund has also received strong demand from tenants under 500sqm comprising 68% of all leases by number undertaken across the two markets."

Like-for-like NPI growth across the portfolio was 2.1% over the period supported by growth in Sydney at 3.0% and North Sydney at 4.2%, however this was negatively impacted by incentive amortisation commencing from a previously zero base at 140 Creek Street, Brisbane and 836 Wellington Street, Perth. Excluding these two assets, total like-for-like NPI growth was 3.3%.

567 Collins Street in Melbourne achieved 4,546sqm of leasing, including a new 10 year lease to WorkSafe over 2,603sqm. The Melbourne portfolio WALE at the end of FY18 was in excess of 11 years.

In Brisbane, 15 leases to small tenants were executed during the period. The portfolio has benefited from strengthening investment demand and improving office market conditions with occupancy at 94% at the end of FY18.

Leases expiring in FY19 were reduced by 6.8% over the period from 25.0% to 18.2%, with over 80% of leases expiring over the next two years being situated in Sydney and North Sydney.

Post balance date, IOF entered into a conditional agreement for the sale of 836 Wellington Street in Perth at a 20% premium to 31 December 2017 book value. This follows the lease extension to the Federal Government to 2027 and takes advantage of strong demand for long leased assets with high quality covenants.

Responsible investment

The Fund achieved a top 2% position amongst Global Real Estate Sustainability Benchmark (GRESB) respondents. The Fund made progress towards its target of Net Zero Carbon Emissions by 2040, with a 8%[6] reduction in carbon emissions to March 2018 compared to the pcp.

Development and refurbishment pipeline

The A-grade 22,000sqm **Barrack Place development** at 151 Clarence Street, Sydney remains on target for practical completion in October 2018. Leasing progress during the year included the Pfizer and Mills Oakley Agreements For Lease (AFL), increasing total leasing commitments to 84%. The project is anticipated to deliver a circa 8% yield on cost[7].

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[5] On leases executed, excluding Heads of Agreement.
[6] Subject to assurance.
[7] Forecast net income once fully leased over total cost (including incentives).

The renewal of ANZ at **347 Kent Street, Sydney**, provides certainty of income over 68% of the office NLA whilst the remainder of the building is repositioned and released. The lift refurbishment is well underway and refurbishment works are anticipated to commence post ANZ's current expiry in January 2019. Completion of the works is anticipated in Q4 2019.

The anticipated refurbishment of **388 George Street, Sydney**, is on track with the IAG lease expiring in October 2018 and the leasing campaign is progressing. A development application was also submitted during the year for a new retail podium and ground floor lobby entrance. Completion of all works is anticipated in 2020.

Valuations

A total valuation uplift of $399.2 million, or 10.5%, was achieved during the year, resulting from two independent valuation programs undertaken:

- At 31 December 2017, five properties were independently valued in accordance with the Fund's Valuation Policy resulting in a valuation increase over book value of $80.8 million or 2.1% of total portfolio value.
- At 31 May 2018, all 20 properties were independently valued resulting in a valuation increase over book value of $316.1 million or 7.9% of total portfolio value. This independent valuation of the entire portfolio was in response to the proposal from funds managed or advised by Blackstone to acquire all of the units in IOF.
- A further $2.3 million uplift was recognised in June 2018 reflecting the sale terms agreed for 836 Wellington Street over and above the May 2018 valuation.

The valuation gains were driven predominantly by the Sydney and North Sydney leasing and transaction markets, significant leasing activity within the portfolio and the progression of the Barrack Place development at 151 Clarence Street, Sydney. These asset management initiatives and positive leasing fundamentals accounted for 64% of the total FY18 valuation uplift, while the portfolio's weighted average capitalisation rate compressed by 26 basis points over FY18 to 5.48%.

Active capital management

IOF's gearing of 23% at 30 June 2018 is below the Fund's target range of 25% to 35%, providing capacity to fund anticipated development and refurbishment expenditure. At the end of FY18, the Fund's weighted average debt expiry was 4.4 years with the weighted average cost of debt of 4.0%.

The Fund's weighted average debt hedged over the financial year increased to 77.9% and is anticipated to remain at the upper end of the Fund's 50% to 80% target range for the short to medium term.

$125 million of Australian dollar denominated Medium Term Notes were repaid on expiry and an additional $300 million of new bank debt facilities were installed with terms of four and five years.

Post the announcement in August 2017 of the potential on-market buy-back of IOF's units, IOF purchased 2.5% of units at an average price of $4.48 per unit during the period.

Financial year 2019 outlook

FFO guidance for FY19 is 29.2cpu, down 4.6% on FY18. Fixed rental increases and positive leasing fundamentals in Sydney are anticipated to be offset by the expected sale of 836 Wellington Street and vacancy at 388 George Street and 347 Kent Street while the refurbishment of these two properties is undertaken. Like-for-like NPI growth is anticipated to be -1.8%[8], or circa 2% excluding the impact of 347 Kent Street. The distribution is forecast to remain flat at 20.3cpu. This guidance is subject to prevailing market conditions and assumes no further acquisitions or disposals.

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[8] Excluding 388 George Street, 151 Clarence Street and 836 Wellington Street.

Blackstone Proposal

An Explanatory Memorandum, which includes a detailed explanation behind the ILFML Directors' recommendation, the Independent Expert's Report and a Notice of Meeting, was released to the Australian Securities Exchange on 24 July 2018 and sent to Unitholders on 27 July 2018.

The Independent Expert concluded the Proposal is in the best interests of IOF Unitholders in the absence of a superior proposal. In arriving at this opinion, the Independent Expert assessed the Proposal to be not fair but reasonable.

The Directors of ILFML carefully considered the Proposal and after receiving advice from their financial and legal advisors and considering the Independent Expert's Report, unanimously recommend that IOF Unitholders vote in favour of the Proposal in the absence of a superior proposal.

As detailed in the Notice of Meeting, the Proposal requires the approval of IOF Unitholders at a Meeting proposed to be held at 10.00am (Sydney time) on 21 August 2018 at the Swissotel, Maple Room, 68 Market Street, Sydney NSW 2000.

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About Investa Office Fund

Investa Office Fund (ASX code: IOF) is an externally managed Australian listed real estate investment trust, included in the S&P/ASX 100 index. IOF is governed by the Independent Board of Investa Listed Funds Management Limited as Responsible Entity, and managed by Investa – one of Australia's largest and most highly regarded office managers. IOF has total assets under management of $4.4 billion, with 20 investment grade office buildings in core CBD markets across Australia. The Fund receives rental income from more than 400 tenants, including government agencies and blue chip organisations. IOF's strategy is to deliver attractive risk-adjusted returns investing in high quality Australian office buildings, leveraging Investa's fully integrated specialist property sector capabilities to outperform.

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