

## ASX Announcement – Australian Unity Office Fund

8 February 2017

### 2017 Half year results – Strong result leads to increase in 2017 full-year Funds From Operations and distribution guidance

Australian Unity Investment Real Estate Limited as responsible entity for the Australian Unity Office Fund (ASX: AOF) today announced the AOF half year results to 31 December 2016.

Key financial and operational highlights for the six months to 31 December 2016 included:

- Funds from Operations<sup>1</sup> (“FFO”) of \$12.7 million, which was 9.8% higher than the IPO Product Disclosure Statement dated 23 May 2016 (“PDS”) forecast for the same period;
- Net profit (statutory) of \$27.8 million;
- An increase in net tangible assets (“NTA”) to \$2.08 per unit from \$1.95 per unit at 30 June 2016;
- Portfolio value of \$412.8 million as at 31 December 2016;
- 4.45 year weighted average lease expiry<sup>2</sup> (“WALE”) and 94.7% portfolio occupancy<sup>3</sup>; and
- Gearing of 27.9%<sup>4</sup>.

Due to AOF incurring positive leasing outcomes compared to forecast and lower than forecast interest rates, AOF has revised its full year guidance to 30 June 2017 as follows:

- FY17 FFO guidance is increased from 16.4 cpu to 16.8-17.1 cpu<sup>5,6</sup>; and
- FY17 distribution guidance is increased from 14.8 cpu to 15.0 cpu<sup>5,6</sup>.

Grant Nichols, Fund Manager of AOF said ‘The results reflect AOF’s strategy of investing in a diversified portfolio of Australian metropolitan and CBD office markets. When combined with active asset management, AOF has delivered on its objective of providing unitholders with sustainable income returns and the potential for capital growth’.

### Financial Results for the half year to 31 December 2016

FFO \$12.7 million (PDS forecast: \$11.6 million)

Net profit (statutory) \$27.8 million (PDS forecast: \$8.9 million)

AOF delivered an FFO of \$12.7 million or 9.1 cpu, which was greater than the PDS forecast of \$11.6 million or 8.3 cpu for the six months to 31 December 2016. The primary reasons for the increase in FFO were better than forecast leasing outcomes and lower than forecast borrowing costs.

Net profit (statutory) was \$27.8 million, which was greater than the PDS forecast of \$8.9 million for the six months to 31 December 2016. The primary reasons for the increase in net profit was a \$15.8 million net fair value increment of investment properties and a \$1.4 million net gain on financial instruments held at fair value.

Distributions of \$10.4 million or 7.4 cpu were paid during the period.

#### ASX code:

AOF

#### Issuer

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### Capital Management as at 31 December 2016

Gearing <sup>4</sup>	27.9%
Weighted average cost of debt	3.6% pa
Weighted average debt term to maturity	3.5 years
Interest cover ratio	4.06x
Hedged debt	68%

As at 31 December 2016 AOF had total debt facilities of \$140 million with \$118 million drawn. Gearing of 27.9% is within the target gearing of below 40%, and the interest cover ratio of 4.06x provides significant headroom to the debt covenant.

AOF's debt is diversified by both maturity and financier. With sufficient undrawn debt, significant debt covenant headroom and a diversified debt maturity profile, AOF is meeting its capital management objective of maintaining a robust capital structure to withstand cycles and enable growth.

### Portfolio Update as at 31 December 2016

Portfolio Value	\$412.8 million
Weighted average capitalisation rate	7.8%
Portfolio net lettable area	97,595sqm
WALE <sup>2</sup>	4.45 years
Occupancy <sup>3</sup>	94.7%

#### *Leasing*

Approximately 5,750sqm new leases have been completed since 30 June 2016 via 13 separate transactions. A further ~5,600sqm is subject to signed, but non-binding, heads of agreement, which have not been included in the portfolio metrics reported as at 31 December 2016. Combined, the total leasing represents ~12% of the portfolio by area.

Approximately 3,000sqm of the new leases have been completed at 2 Eden Park Drive, North Ryde, which has resulted in the occupancy for that building increasing to 100%. On average, rents achieved in these recent lease transactions have been approximately 12% above the market rents specified in 30 April 2016 valuation.

#### *Asset Valuations*

Four properties were independently valued as at 31 December 2016, with the change from the 30 June 2016 book value noted below:

- 468 St Kilda Road, Melbourne was valued at \$50.0 million, an increase of \$5.7 million;
- 2 Eden Park Drive, North Ryde was valued at \$34.0 million, an increase of \$5.1 million;
- 32 Phillip Street, Parramatta was valued at \$41.7 million, an increase of \$4.0 million; and
- 64 Northbourne Avenue, Canberra was valued at \$19.2 million, an increase of \$0.68 million.

The increases in valuations were due to a combination of capitalisation rate compression, increased market rents, and improved WALE and occupancy. Recent sales evidence resulting from

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strong investment demand supported capitalisation rate compression, particularly in Parramatta and the St Kilda Road precinct.

AOF's weighted average capitalisation rate firmed to 7.8% as at 31 December 2016 from 8.0% as at 30 June 2016.

### Outlook

Grant Nichols said 'AOF is well placed to deliver on its objective of providing unitholders with sustainable income returns with the portfolio underpinned by 94.7% occupancy, with no single near term lease expiry being greater than 5% of the portfolio's income and over 50% of the portfolio by gross property income leased to investment grade tenants such as Telstra, GE and NSW government'.

We expect AOF's portfolio will continue to benefit from improving tenant demand evidenced in the major office markets on Australia's eastern seaboard, particularly in the small tenant (sub-1,000sqm) segment of the market. Investment demand is being generated from a diverse range of sources and is anticipated to remain elevated in both CBD and metropolitan markets which should support ongoing capital values'.

Barring unforeseen changes to operating conditions, AOF's FFO guidance for the 2017 financial year has increased from 16.4 cpu to 16.8-17.1 cpu<sup>5,6</sup>, and its distribution guidance has increased from 14.8 cpu to 15.0 cpu<sup>5,6</sup> for the same period.

1. FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives, rental straight-line adjustments and other unrealised or one-off items.
2. WALE is the average lease term remaining to expiry across the portfolio, weighted by gross property income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 46 years remaining on the lease and would thus distort the metric.
3. Portfolio occupancy is the percentage of net lettable area which is occupied.
4. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash.
5. Subject to no material change in market conditions.
6. As the PDS for the IPO also forecast FFO and distribution to 31 December 2017, our outlook for the six month to 31 December 2017 remains consistent with the PDS. We will provide a further view on guidance in due course.

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### About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of eight office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 ('AUIREL'). AUIREL is a wholly owned subsidiary of Australian Unity Limited ABN 23 087 648 888.

The Australian Unity Group is a national healthcare, financial service and retirement living organisation that provides services to around 1,000,000 Australians, including 300,000 members nationwide and employs some 7,000 staff as at 30 June 2016.