



Australian Unity Office Fund

(ASX: AOF)

2017 Full Year Results
Presentation – 8 August 2017

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Australian Unity

With its origins dating back to the 1840s, Australian Unity today, is a national health, wealth and living mutual company providing services to approximately one million Australians.

Australian Unity's Real Estate Investment

- Established in 1998.
- Diverse offering of listed and unlisted property funds
- Owns and manages more than 65 Australian properties
- Office, healthcare, retail and industrial sectors
- \$2.44 billion FUM at 30 June 2017
- Master developer for the \$1.1 billion Herston Quarter redevelopment in Brisbane



Artist impression drawing of the proposed Specialist Rehabilitation and Ambulatory Care Centre (SRACC) at the Herston Quarter redevelopment

Ambition for AOF

To be Australia's leading income-focused Australian office A-REIT (22.1%¹ return on NTA for 12 months to 30 June 2017)

¹ Return for the period from 1 July 2016 to 30 June 2017 calculated as the movement in AOF's net asset value plus distributions for the period $((\$2.23 + \$0.15) / \$1.95) - 1 = 22.1\%$

Full Year 2017 result highlights

Exceeding financial forecasts and delivering capital growth

Fund objective		
<p><i>To provide Unitholders with sustainable income returns via quarterly distributions and the potential for capital growth over the long term by investing in a diversified portfolio of Australian office properties</i></p>	1	Funds From Operations (FFO) 17.1 cpu ¹ (PDS ² 16.4 cpu)
	2	NTA per unit \$2.23 ³ (PDS ² \$1.96 ⁴)
	3	Long term renewal of largest near term lease expiry (CPSA ⁵)
	4	Portfolio value increased to \$441.1m ³ (uplift of \$48.3m from June 2016)
	5	93.5% portfolio occupancy ⁶
	6	4.6 year weighted average lease expiry ⁷
	7	FY18 FFO guidance of 17.1 – 17.3 cpu ⁸
	8	FY18 distribution guidance of 15.6 cpu ⁸

1. For twelve months to 30 June 2017
 2. Product Disclosure Statement dated 23 May 2016 (PDS)
 3. As at 30 June 2017
 4. PDS forecast as at allotment on 22 June 2016

5. Contract Pharmaceutical Services of Australia ('CPSA') executed an eight year lease renewal over 6,280 sqm at 5 Eden Park Drive, North Ryde
 6. As at 30 June 2017 by Net Lettable Area
 7. As at 30 June 2017 by Gross Property Income
 8. Subject to no material change in market conditions



Financial results

30 Pirie St, Adelaide, SA

Financial results

Full Year 2017 – key financial metrics

Key metric	Actual	PDS ¹ forecast	Change
Statutory Net Profit ²	\$60.6m	\$18.0m	↑ \$42.6m
FFO ^{2,3}	\$24.0m	\$23.1m	↑ \$0.9m
FFO per unit ^{2,3}	17.1 cpu	16.4 cpu	↑ 0.7 cpu
Distribution ²	\$21.1m	\$20.8m	↑ \$0.3m
Distribution per unit ²	15.0 cpu	14.8 cpu	↑ 0.2 cpu
NTA per unit	\$2.23 ⁴	\$1.96 ⁵	↑ \$0.27
Return on NTA ⁶	22.1%		

- Net profit up \$42.6 million, largely due to increase in asset valuations.
- FFO up \$0.9 million primarily due to better than forecast leasing outcomes and lower than forecast borrowing costs.
- Higher NTA predominately due to increase in asset valuations.
- Higher than forecast distribution due to higher than forecast FFO.

- Product Disclosure Statement dated 23 May 2016
- 12 months to 30 June 2017
- FFO means Funds From Operations
- As at 30 June 2017
- PDS forecast as at allotment on 22 June 2016. Net asset value as at 30 June 2016 was \$1.95 per unit
- Return for the period from 1 July 2016 to 30 June 2017 calculated as the movement in AOF's net asset value plus distributions for the period
 $((\$2.23 + \$0.15) / \$1.95) - 1 = 22.1\%$

Financial results

Full Year 2017 – capital management

	30 June 2017	30 June 2016	Change
Total borrowings ¹	\$123.5m	\$119.0m	+\$4.5m
Gearing	27.0%	27.5%	-0.5%
Weighted average cost of debt	3.6%	3.6%	-
Weighted average debt term to maturity	3.0 years	4.0 years	-1.0 years
Interest cover ratio	6.45x	2.87x	+3.58x
Weighted average term of interest rate hedging	3.2 years	4.1 years	-0.9 years
Hedging average interest rate ²	1.93%	1.97%	-0.04%

1. Total borrowings represent the bank loans and excludes unamortised borrowing costs
2. Excludes financier's margin, line fee and establishment fee

Capital management objective

Maintain a robust capital structure that can withstand cycles and enable growth

- Debt diversified by financier and maturity.
- Significant debt headroom.
- Borrowings were 81% hedged as at 30 June 2017.
- Forward start hedge put in place. Hedging profile in appendix.
- Increased interest cover ratio due to reduction in gearing across full year.

Portfolio management

2
EDEN PARK DRIVE

2 Eden Park Drive, North Ryde, NSW

FY17 Portfolio highlights

Significant leasing completed with solid valuation outcomes

Portfolio objective	1	~17,400 sqm of new leases completed (26 transactions)
<p><i>Construct an Australian metropolitan and CBD office property portfolio that maintains diversification of geography, tenants and lease expiry profile.</i></p>	2	Represents ~18% of portfolio by area
	3	~2,000 sqm relates to previously vacant space (9 transactions)
	4	Eight year renewal of CPSA (the Fund's largest near term expiry)
	5	Additional ~3,400 sqm of executed leases post 30 June 2017 or subject to signed HOA ¹ (7 transactions)
	6	Portfolio value increased by \$48.3m to \$441.1m
	7	Weighted average capitalisation rate of 7.5%
	8	Average portfolio value per sqm ~\$4,500

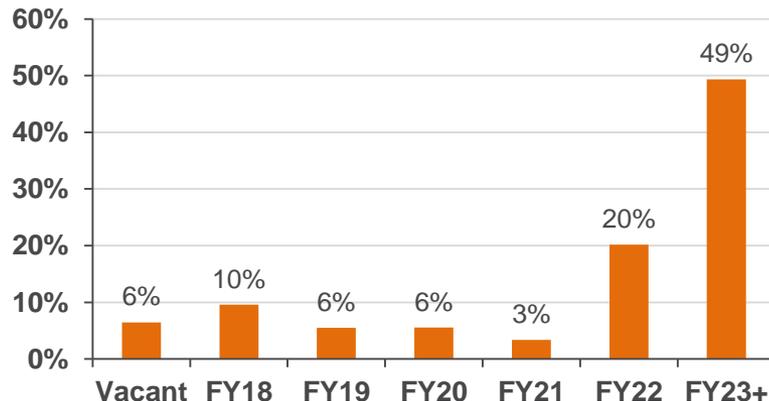
1. Heads of Agreement ('HOA')

Leasing summary

AOF has a strong track record of renewing key tenants

- Eight year lease renewal of CPSA at 5 Eden Park Drive, North Ryde from current 30 June 2018 lease expiry.
- 18% of portfolio by area leased during FY17.
- ~3,400 sqm of executed leases or signed HOA not included in 30 June 2017 portfolio metrics.
- No significant single lease expiry until FY22 and only one expiry of greater than 1,000 sqm before FY20.
- Continued solid levels of leasing activity in the sub-1,000 sqm market.

Lease expiry profile¹



1. As at 30 June 2017 by Net Lettable Area

Near-term key lease expiries (>1,000 sqm)

Property	Area (sqm)	Expiry
30 Pirie Street, Adelaide	2,063	Vacant
241 Adelaide Street, Brisbane	1,631	Vacant
5 Eden Park Drive, North Ryde	1,108	Vacant
468 St Kilda Road, Melbourne	1,028	Vacant
64 Northbourne Avenue, Canberra	1,761	FY18
2 Eden Park Drive, North Ryde	1,427	FY20
10 Valentine Avenue, Parramatta	15,569	FY22

Valuation summary

Uplift due to market parameters and leasing success

- Portfolio value increased to \$441.1 million, with an average rate per sqm of ~\$4,500.
- Four properties externally revalued as at 30 June 2017 resulting in a 8.0% increase over the preceding book value for those properties revalued.
- Weighted portfolio capitalisation rate reduced from 7.8% in December 2016 to 7.5%, with continued strong sales evidence supporting compression.
- The valuation of 10 Valentine Ave, Parramatta does not take into account any development potential.

Property	Main reason for valuation change	Cap rate change	Change in valuation ¹	30 June 17 valuation
10 Valentine Ave, Parramatta	Capitalisation rate compression, increase in market rents	-75bps	↑ \$16.5m	\$86.0m
5 Eden Park Drive, North Ryde	Increase in market rents, improved WALE, capitalisation rate compression	-100bps	↑ \$11.6m	\$52.4m
30 Pirie Street, Adelaide	Negligible change	No change	↑ \$1.8m	\$119.0m
241 Adelaide St, Brisbane	Capitalisation rate compression slightly offset by vacancy	-50bps	↑ \$1.0m	\$36.8m

1. Change in valuation from 30 June 2016 book value

Potential development opportunity

10 Valentine Avenue, Parramatta

- Freestanding car park adjacent to existing office tower represents a development opportunity.
- Parramatta CBD Planning Proposal seeks to increase the floor space ratio to 10:1, permitting a ~25,000 sqm office tower.
- A mandatory design competition has been completed and won by Fitzpatrick + Partners Architects who were awarded design excellence.
- Development approval process and leasing strategy is being progressed, subject to implementation of the Parramatta CBD Planning Proposal.
- Development will only be undertaken if sufficiently de-risked through a suitable pre-commitment.



Impression of Fitzpatrick + Partners design of potential development, with the existing building in the foreground

Market overview

5 Eden Park Drive, North Ryde, NSW

Market overview

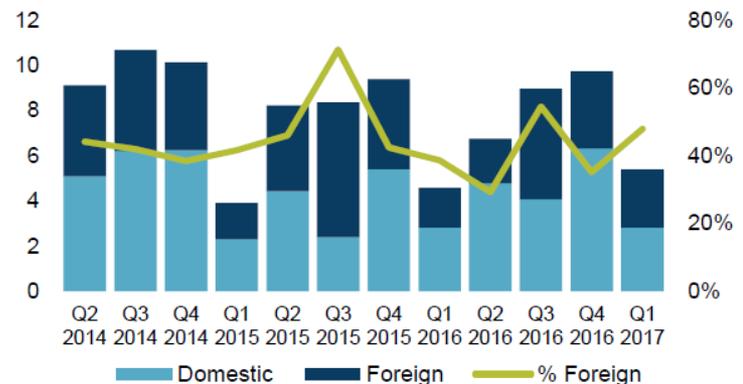
Leasing conditions are solid, with investment demand strong

- Most major markets have incurred a reduction in vacancy rates.
- Both Brisbane and Canberra continue to demonstrate improved tenant activity through relatively strong net absorption.
- SME tenants (sub 1,000 sqm) remain a strong source of activity in most markets.
- Levels of investment demand remain elevated, with stronger transactional evidence occurring since 31 Dec 2016.
- Foreign investors demonstrating a greater appetite for risk.

Market	Vacancy June 17	12 month change	12 Month Net Absorption (sqm)
Adelaide	16.0%	↓	3,665
Brisbane	15.5%	↓	52,682
Canberra	11.6%	↓	22,642
North Ryde	10.9%	↑	4,205
Parramatta	3.6%	↓	28,208
St Kilda Road	10.4%	↓	(15,786)
National	10.8%	↓	379,498

Source: JLL Research

Domestic vs foreign purchasing activity (AUDbn)



Source: Cushman & Wakefield Research

Market overview

The majority of AOF's markets look comparatively cost-effective on a rental basis

- The Sydney CBD achieved a significant 25.3% growth in effective rents during FY17.
- Parramatta now more than half and North Ryde almost two thirds cheaper than the Sydney CBD on an effective rental basis.
- Adelaide is the cheapest substantial office market, followed by Canberra.
- Despite high prevailing vacancy rates, Perth remains comparatively expensive.
- Melbourne metropolitan markets are more closely aligned to the Melbourne CBD when compared to Sydney.

Market	Prime Gross Effective Rent ¹ (\$/sqm)	Discount to Sydney CBD
Sydney CBD	\$901	-
North Sydney	\$616	31.7%
Chatswood	\$426	52.7%
Parramatta	\$401	55.5%
North Ryde	\$336	62.7%
Perth CBD	\$435	51.7%
Brisbane CBD	\$389	56.8%
Canberra	\$317	64.8%
Adelaide CBD	\$269	70.1%
Melbourne CBD	\$481	46.6%
		Discount to Melbourne CBD
Melbourne Fringe	\$388	19.3%
Melbourne S.E.S	\$342	28.8%

1. As at the end of Q2 2017

Source: JLL Research



Summary

10 Valentine Avenue, Parramatta, NSW

Outlook

AOF is well positioned to deliver on its objectives

Guidance

- FY18 FFO guidance of 17.1 – 17.3 cpu¹
- FY18 distribution guidance of 15.6 cpu¹

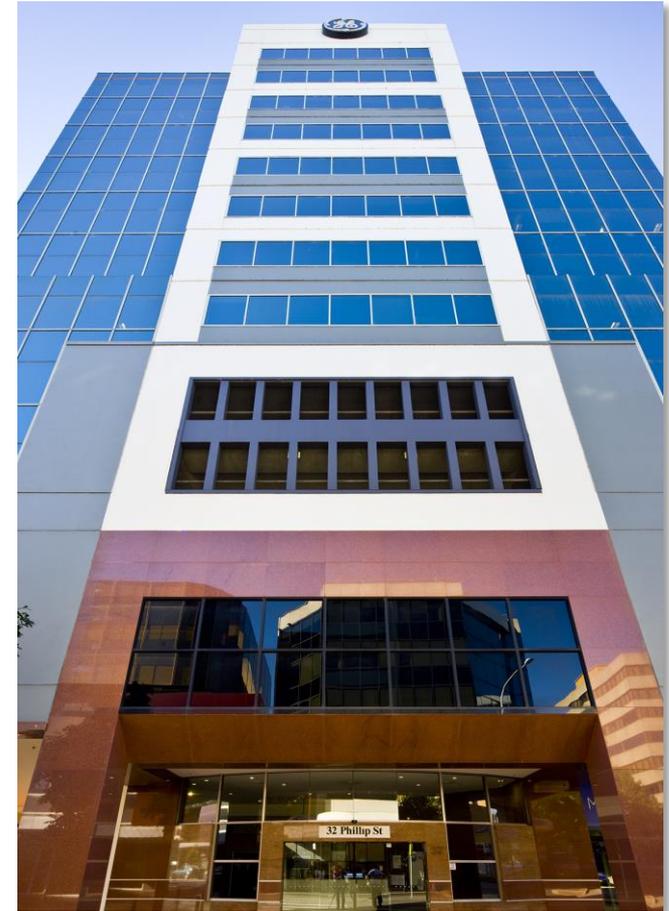
Immediate focus

- Address current vacancy and pending lease expiries.
- Seek to capture rental growth occurring in Sydney and Melbourne and their associated markets, where possible.
- Maintain conservative capital structure.

Growth strategy

- Continue to assess potential acquisitions which may complement existing portfolio, remaining mindful of AOF's cost of capital and be disciplined in our approach.
- Investigate development opportunities within the existing portfolio, particularly 10 Valentine Avenue, Parramatta.
- Generate valuation growth from leasing outcomes.

1. Subject to no material change in market conditions



32 Phillip St, Parramatta, NSW

Appendices

10 Valentine Avenue, Parramatta, NSW

Income statement

12 months to 30 June 2017	Actual (\$'000)	PDS ¹ forecast (\$'000)	Variance
Income Statement			
Rental income	44,009	42,100	1,909
Property expenses	(15,753)	(16,000)	247
Interest income	14	-	14
Net gain on financial assets	1,176	-	1,176
Net fair value increment of investment properties	38,993	-	38,993
Total income net of property expenses	68,439	26,100	42,339
Expenses			
Responsible Entity and Investment Manager fees	(2,478)	(2,400)	(78)
Borrowing costs	(4,420)	(4,800)	380
Other expenses	(904)	(900)	(4)
Total expenses, excluding property expenses	(7,802)	(8,100)	298
Profit attributable to unitholders	60,637	18,000	42,637

1. Product Disclosure Statement dated 23 May 2016 (PDS)

Reconciliation of statutory profit to Property Council FFO

12 months to 30 June 2017	Actual (\$'000)	PDS ¹ forecast (\$'000)	Variance
Statutory Net Profit	60,637	18,000	42,637
Adjusted for:			
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	3,529	5,100	(1,571)
Net gains on financial instruments held at fair value	(1,176)	-	(1,176)
Net fair value increment of investment properties	(38,993)	-	(38,993)
Funds From Operations	23,997	23,100	897
Retained Earnings	(2,941)	(2,300)	(641)
Distributions	21,056	20,800	256

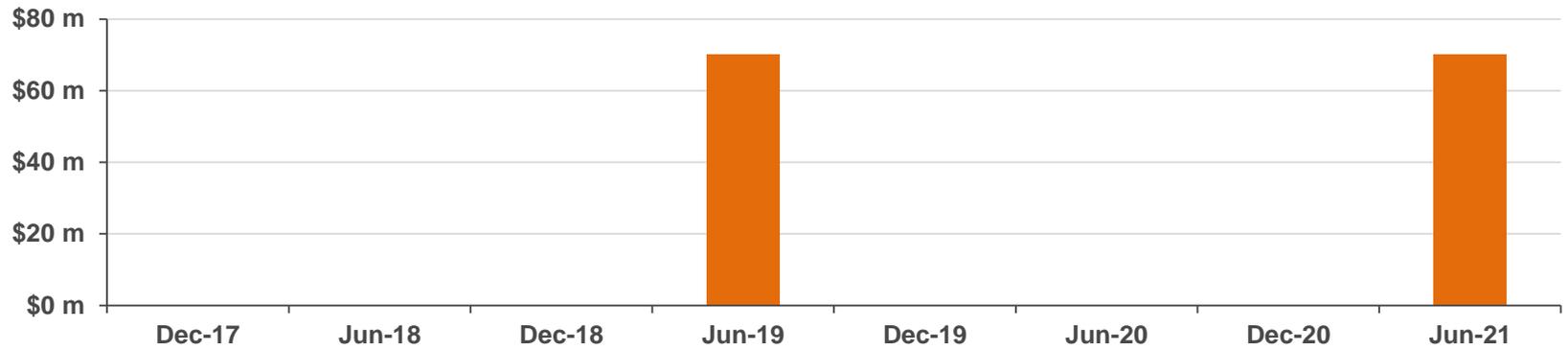
1. Product Disclosure Statement dated 23 May 2016 (PDS)

Balance sheet

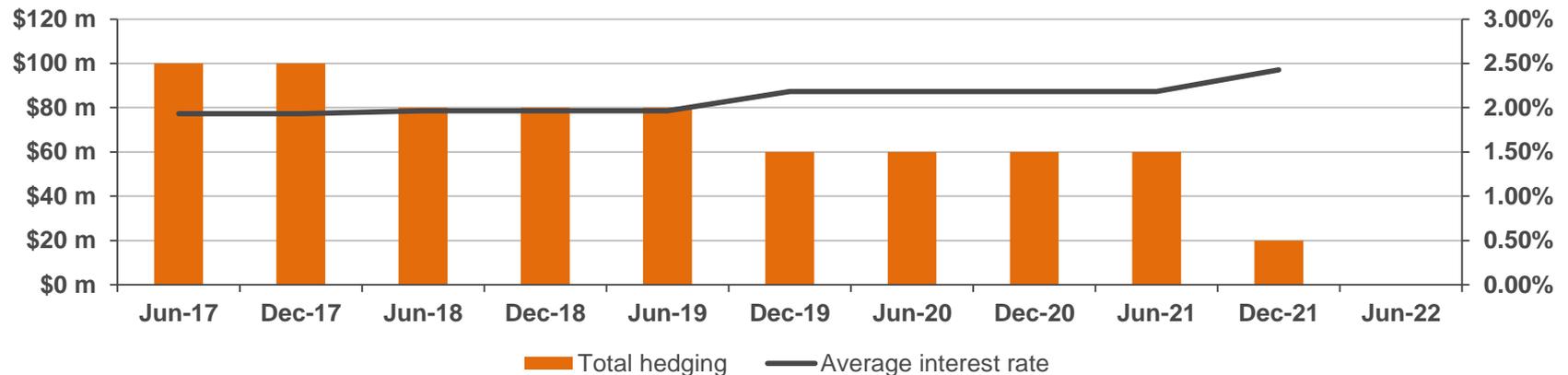
\$'000	30 June 2017	30 June 2016	Movement
Assets			
Cash and cash equivalents	4,118	10,589	(6,471)
Receivables	432	1,553	(1,121)
Financial assets	232	-	232
Other assets	361	314	47
Investment properties	441,067 ¹	392,772	48,295
Total Assets	446,210	405,228	40,982
Liabilities			
Distributions payable	5,334	505	(4,829)
Payables	4,332	3,555	(777)
Financial liabilities		8,931	8,931
Borrowings	122,817	118,091	(4,726)
Total Liabilities	132,483	131,082	(1,401)
Net Assets	313,727	274,146	39,581
Number of units on issue (million)	140.4	140.4	-
Net Tangible Assets per unit	\$2.23	\$1.95	\$0.28
Gearing	27.0%	27.5%	(0.5%)

Capital management

Debt facility expiry profile



Interest rate hedging & average hedged interest rate



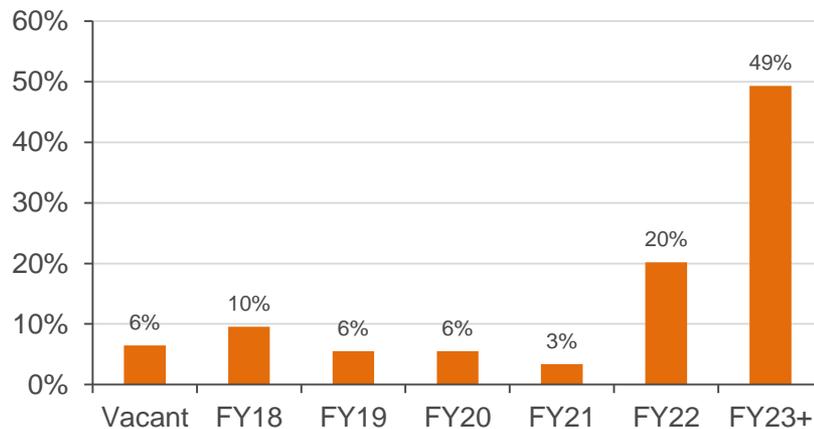
Key portfolio metrics

As at 30 June 2017

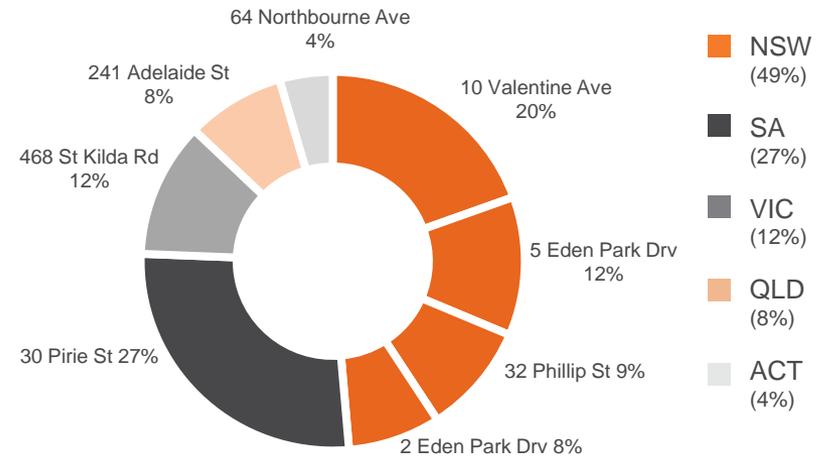
Key portfolio metrics

Number of properties	8
Occupancy ¹	93.5%
Portfolio Value	\$441.1m
Weighted Average Capitalisation Rate	7.5%
WALE ²	4.6 years
Net Lettable Area	97,580 sqm

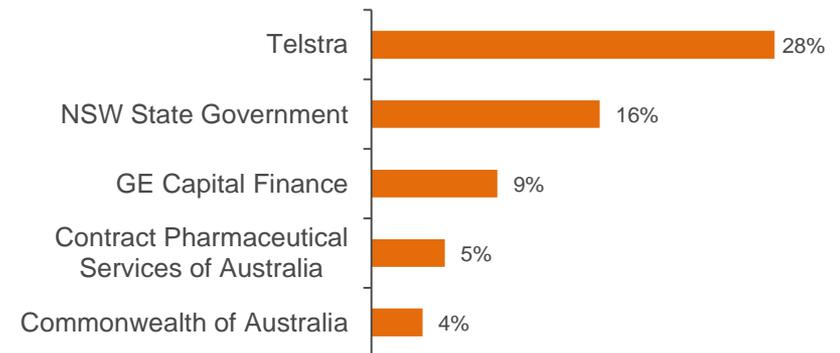
Lease expiry profile¹



Geographic diversification³



Top 5 tenants²



1. As at 30 June 2017, by Net Lettable Area
2. As at 30 June 2017, by Gross Property Income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 45 years remaining on the lease and would thus distort the metric
3. As at 30 June 2017 by book value

Investment portfolio

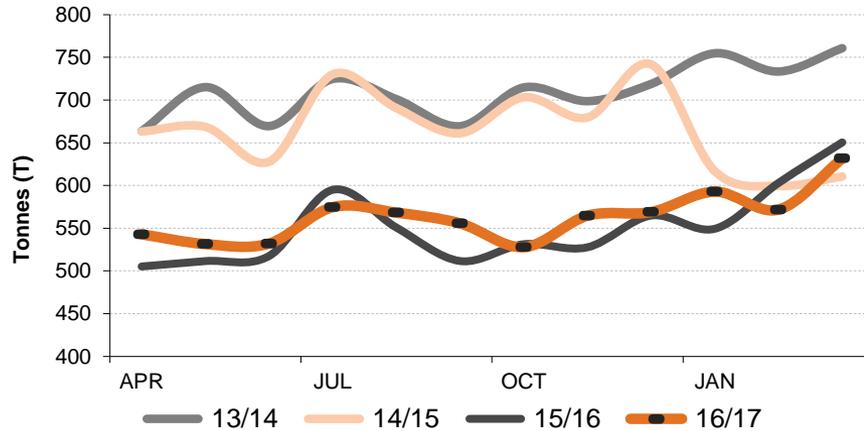
As at 30 June 2017

	Property	State	June 17 book value	Cap rate	NLA (sqm)	WALE ¹ (years)	Occupancy (by NLA)
Single or Dominant Tenant Assets	30 Pirie Street, Adelaide	SA	\$119.0m	7.50%	24,781	5.7	91.7%
	10 Valentine Avenue, Parramatta	NSW	\$86.0m	7.75%	15,995	4.8	100.0%
	5 Eden Park Drive, North Ryde	NSW	\$52.4m	6.75%	11,018	6.6	89.9%
	32 Phillip Street, Parramatta	NSW	\$41.7m	7.00%	6,759	6.0	100.0%
Multi Tenant Assets	468 St Kilda Road, Melbourne	VIC	\$51.0m	6.75%	11,186	3.1	90.8%
	241 Adelaide Street, Brisbane	QLD	\$36.8m	8.50%	11,078	2.5 ¹	85.3%
	2 Eden Park Drive, North Ryde	NSW	\$34.5m	8.00%	10,345	2.7	100.0%
	64 Northbourne Ave, Canberra	ACT	\$19.7m	9.00%	6,418	3.7	92.6%
Total (T) / weighted average(A)			\$441.1m (T)	7.5% (A)	97,580 (T)	4.6 (A)	93.5% (A)

1. As at 30 June 2017, by Gross Property Income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 45 years remaining on the lease and would thus distort the metric

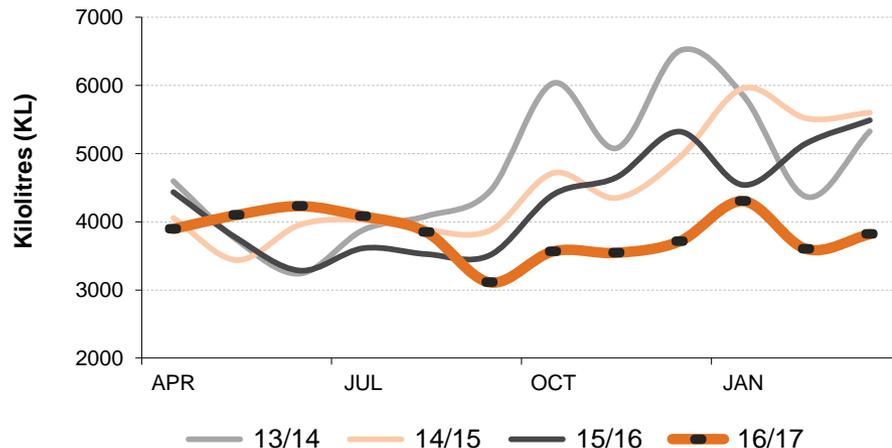
Operational performance

Greenhouse Emissions



- Daily monitoring across all properties to improve operational efficiency and consumption.
- Yearly variation due to seasonality.

Water Consumption



Australian Unity Office Fund

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Centre: (William) **Peter Day**, Independent Director and Chairman, Member of the Fund's Audit & Risk Committee

From left: **Don Marples**, Independent Director, Chairman of the Fund's Audit & Risk Committee; **Eve Crestani**, Non-executive Director, Member of the Fund's Audit & Risk Committee; **Kirsty Dullahide**, Executive Director; **Greg Willcock**, Non-executive Director

Australian Unity Office Fund

Management Team



From left: **Mark Pratt**, General Manager, AUREI; **Simon Beake**, Portfolio Manager; **Grant Nichols**, Fund Manager; **Giovanna Reale**, Asset Manager



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