ASX Announcement – Australian Unity Office Fund

6 February 2018

2018 half year financial results – AOF continues to deliver on PDS financial forecasts and generate capital growth

Australian Unity Investment Real Estate Limited as responsible entity for the Australian Unity Office Fund (ASX: AOF) today announced the AOF financial results for the 2018 half year.

Key financial and operational highlights included:

- Funds from Operations[1] (FFO) of $13.1 million, or 8.6 cents per unit (CPU);
- An increase in net tangible assets (NTA) to $2.31 per unit from $2.23 per unit at 30 June 2017;
- Portfolio value increased to $574.8 million, primarily due to the acquisition of 150 Charlotte Street, Brisbane and property revaluations;
- 4.5 year weighted average lease expiry[2] (WALE) and 94.4% portfolio occupancy[3]; and
- Gearing of 33.0%[4], with an increased average debt maturity of 3.2 years.

Grant Nichols, Fund Manager of AOF said 'Since listing in June 2016, AOF has either delivered or exceeded the eighteen month financial forecasts set out in the Product Disclosure Statement (PDS) dated 23 May 2016. During this period AOF also generated significant growth, with NTA now $2.31 per unit compared to $1.96 per unit upon listing, while the size of the portfolio has grown from $393.8 million to $574.8 million'.

As part of results, AOF reconfirmed guidance for:

- Financial year 2018 FFO guidance of between 17.1 and 17.3 CPU[5]; and
- Financial year 2018 distribution guidance of 15.6 CPU[5].

Financial Results (for the half year to 31 December 2017)

FFO	$13.1 million (PDS forecast: $12.1 million)
Net profit (statutory)	$26.3 million (PDS forecast: $9.8 million)

AOF delivered an FFO of $13.1 million, which was $1.0 million greater than the PDS forecast of $12.1 million. The primary reason for the increase in FFO was the acquisition of 150 Charlotte St, Brisbane in October 2017.

Net profit (statutory) was $26.3 million, which was $16.5 million greater than the PDS forecast of $9.8 million. The primary reason for the increase in net profit was $14.9 million of net fair value increment of investment properties.

Distributions of $11.8 million or 7.8 CPU were declared during the period.

Capital Management (as at 31 December 2017)

Gearing[4]	33.0%
Weighted average cost of debt	3.7%
Weighted average term to maturity	3.2 years
Interest cover ratio	5.65x
Hedged debt	72%

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As at 31 December 2017 AOF had total debt facilities of $210 million with $194.5 million drawn. Gearing of 33.0% is within the target gearing of below 40%, and the interest cover ratio of 5.65x provides ample headroom to the debt covenant of 2.00x.

During the half year AOF put in place a new five year $70 million debt facility, which increases debt maturity diversification and increases the weighted average debt term to maturity to 3.2 years. 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 that can withstand cycles and enable growth.

Portfolio Update (as at 31 December 2017)

Portfolio Value	$574.8 million
Weighted average capitalisation rate	7.0%
Portfolio net lettable area	108,626 sqm
WALE[2]	4.5 years
Occupancy[3]	94.4%

Acquisitions

AOF acquired 150 Charlotte Street, Brisbane for $105.75 million in October 2017, the first acquisition since listing in June 2016. 150 Charlotte Street is a well located, CBD office building that is complementary to AOF's portfolio and strategy of delivering sustainable income returns. Substantially refurbished in 2012, the property is fully occupied with a WALE of 5.3 years as at 31 December 2017. Notably, over 75% of the income is derived from two major tenants, being Boeing Defence Australia, who has a current lease until 30 June 2024, and the Commonwealth of Australia (representing the Department of Foreign Affairs and Trade).

Leasing

Approximately 6,150 sqm of new leases were completed in the half year to 31 December 2017 via 16 separate transactions, representing approximately 5.7% of the portfolio by area. Approximately 3,000 sqm of this leasing related to previously vacant space via ten transactions.

With no significant lease expiry until financial year 2022 and only one expiry of greater than 1,000 sqm before financial year 2020, AOF is well placed to continue delivering sustainable income returns.

Asset Valuations

Four properties were independently valued as at 31 December 2017, with the change from the 30 June 2017 book value noted below:

- 468 St Kilda Road, Melbourne was valued at $61.5 million, an increase of $10.5 million;
- 10 Valentine Avenue, Parramatta was valued at $95.0 million, an increase of $9.0 million, noting that this valuation does not take into account any development potential;
- 2 Eden Park Drive, North Ryde was valued at $40.0 million, an increase of $5.5 million; and
- 64 Northbourne Avenue, Canberra was valued at $19.8 million, an increase of $0.1 million.

The increases in valuations were due to a combination of capitalisation rate compression, increased market rents and improved WALE/occupancy. Recent sales evidence, resulting from strong investment demand, supported capitalisation rate compression particularly in the Parramatta and St Kilda Road markets.

AOF's weighted average capitalisation rate firmed to 7.0% as at 31 December 2017 from 7.5% as at 30 June 2016.

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Outlook

Grant Nichols said 'AOF is well placed to deliver on its objective of providing unitholders with sustainable income returns with a portfolio underpinned by 94.4% occupancy, with no significant single lease expiry until June 2022 and over 60% of the portfolio leased to investment grade tenants such as Telstra, State and Federal Government, Boeing and GE'.

'We continue to see strong investment demand for Australian office markets, with investors attracted by ongoing economic stability, relatively limited supply and improving tenant demand, which in turn is increasing the potential for rental growth. This demand should continue to underpin AOF's portfolio value, while improving leasing conditions should encourage earnings growth over time'.

AOF reconfirms FFO guidance for the 2018 financial year of 17.1 CPU to 17.3 CPU and distribution guidance for the 2018 financial year of 15.6 CPU. This guidance is subject to no material change in current market conditions and no unforeseen events. Distributions will continue to be paid quarterly.

Footnotes:

1. FFO is 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 and leasing costs, 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 45 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 current market conditions and no unforeseen events.

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About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of nine 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
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Australian Unity is a health, wealth and living organisation providing products and services designed to help people thrive. More than one million Australians have created a bright future with us. Our businesses span operations providing healthcare, financial services, and retirement and living services, employing more than 7,500 people across Australia.