

Australian Unity Office Fund

(ASX: AOF)

2018 Half Year Results

Presentation – 6 February 2018

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150

150 Charlotte Street, Brisbane, QLD

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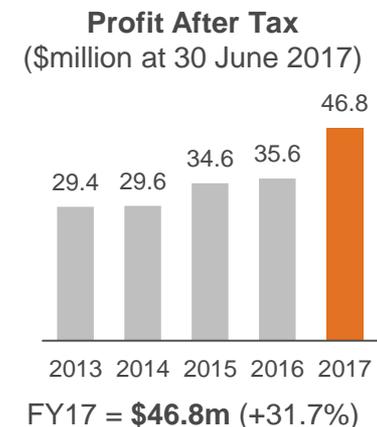
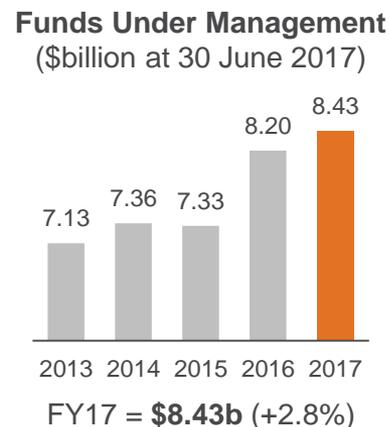
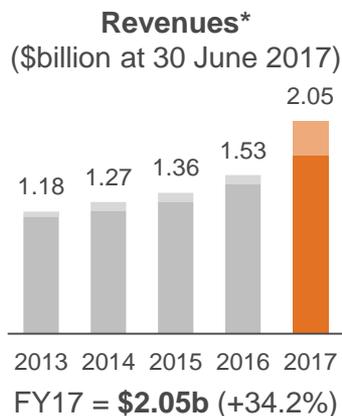
All information in the presentation is current as at 31 December 2017 unless otherwise stated. Any dollar (\$) reference is Australian dollars unless otherwise stated.

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Australian Unity – Group update

Australian Unity is a mutual organisation that has been helping Australians thrive for more than 175 years in the areas of **Health**, **Wealth** and **Living**.

- Australia's 23rd largest private company[^]
- 300,000+ members, 1 million+ customers and 7,000+ employees
- Deep expertise within the **Property** business with 40 specialist staff as well as support from the wider Australian Unity Group



- Revenues: comprise revenue and other income receipts (shown as the bottom section of the bar chart) as shown in the statement of comprehensive income in the Australian Unity Limited Annual Report, 30 June 2017 plus life investment contract premium receipts (shown as the top section of the bar chart). The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.

[^] Australian Financial Review, September 2017

All data at 30 June 2017 (unless otherwise stated)

AOF Half Year 2018 result highlights

Delivered on PDS objectives, generated growth

Fund objective		
<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>	1	Funds From Operations (FFO) 8.6 cpu ¹ (PDS ² 8.6 cpu)
	2	NTA increased 3.6% to \$2.31 per unit ³ (30 June 2017 \$2.23)
	3	Acquisition of 150 Charlotte Street, Brisbane for \$105.75 million
	4	Now 79% exposure (by value) to the eastern seaboard
	5	Increased average debt maturity to 3.2 years
	6	Gearing at 33% ⁴
	7	FY18 FFO guidance of 17.1 – 17.3 cpu ⁵ reconfirmed
	8	FY18 distribution guidance of 15.6 cpu ⁵ reconfirmed

1. For six months to 31 December 2017
 2. Product Disclosure Statement dated 23 May 2016 (PDS)
 3. As at 31 December 2017

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

Financial results

468 St Kilda Road, Melbourne, VIC

Financial results

Half Year 2018 – key financial metrics

Key metric	Actual	PDS ¹ forecast		Change
Statutory Net Profit ²	\$26.3m	\$9.8m	↑	+\$16.5m
FFO ^{2,3}	\$13.1m	\$12.1m	↑	+\$1.0m
FFO per unit ^{2,3}	8.6 cpu	8.6 cpu	↔	0.0 cpu
Distribution ²	\$11.8m	\$10.9m	↑	+\$0.9m
Distribution per unit ²	7.8 cpu	7.8 cpu	↔	0.0 cpu
NTA per unit	\$2.31 ⁴	\$1.96 ⁵	↑	+\$0.35
Return on NTA ⁶	7.1% for the six month period to 31 Dec 17			

- Net profit up \$16.5 million, largely due to increase in asset valuations.
- FFO and distribution up by \$1.0 million and \$0.9 million respectively primarily due to acquisition of 150 Charlotte Street, Brisbane.
- Higher NTA predominately due to increase in asset valuations.

- Product Disclosure Statement dated 23 May 2016
- 6 months to 31 December 2017
- FFO means Funds From Operations
- As at 31 December 2017
- PDS forecast as at allotment on 22 June 2016
- Return for the period from 1 July 2017 to 31 December 2017 calculated as the movement in AOF's net asset value plus distributions for the period
 $((\$2.31 + \$0.078) / \$2.23) - 1 = 7.1\%$

Financial results

Half Year 2018 – capital management

	31 Dec 2017	30 June 2017	Change
Total borrowings ¹	\$194.5m	\$123.5m	+\$71.0m
Gearing ²	33.0%	27.0%	+6.0%
Weighted average cost of debt	3.7%	3.6%	+0.1%
Hedging average interest rate ³	2.1%	1.9%	+0.2%
Weighted average debt term to maturity	3.2 years	3.0 years	+0.2 years
Interest cover ratio	5.65x	6.45x	-0.8x
Weighted average term of interest rate hedging	2.8 years	3.2 years	-0.4 years

1. Total borrowings represent the bank loans and excludes unamortised borrowing costs
2. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash
3. Excludes financier's margin, line fee and establishment fee

Capital management objective

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

- New \$70 million debt facility with a FY23 expiry increases debt maturity diversification
- \$50 million of new equity raised, diversifying unitholder base
- Borrowings were 72% hedged as at 31 December 2017
- Interest cover ratio remains well above debt covenant (2.0x) despite slight reduction due to higher gearing

Portfolio management

30 Pirie Street, Adelaide, SA

Portfolio highlights

Solid valuation outcomes and leasing completed

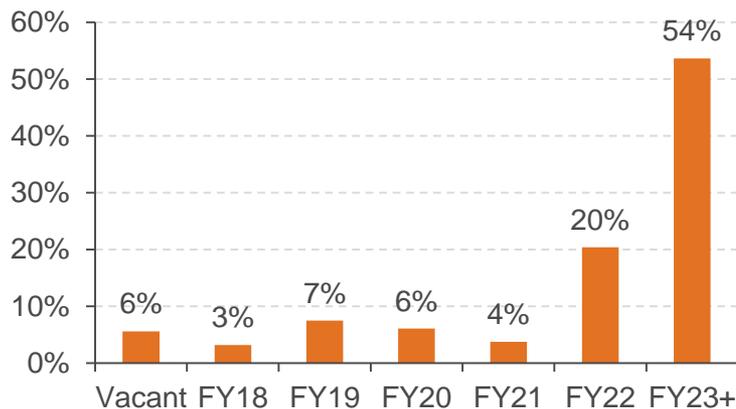
Portfolio objective		
<p><i>Construct an Australian metropolitan and CBD office property portfolio that maintains diversification of geography, tenants and lease expiry profile.</i></p>	1	Four properties externally re-valued resulting in 10.2% increase of those properties revalued
	2	Portfolio value increased by \$133.7m to \$574.8m, primarily due to the acquisition of 150 Charlotte Street, Brisbane
	3	~6,150 sqm of new leases completed (16 transactions), representing ~5.7% of portfolio by area
	4	~3,000 sqm relates to previously vacant space (10 transactions)
	5	Development Application submitted for new office development adjacent to existing 10 Valentine Avenue, Parramatta building
	6	NSW Government wishes to enter into negotiations to acquire 32 Phillip Street, Parramatta
	7	Weighted average capitalisation rate of 7.0%
	8	Average portfolio value per sqm ~\$5,265

Leasing summary

Good levels of leasing enquiry across portfolio

- Over 2,000 sqm completed at 468 St Kilda Road, with average rents achieved ~7% higher than valuation market rents
- ~3,000 sqm of completed leases related to previously vacant space
- ~1,100 sqm of executed leases or signed HOA not included in 31 December 2017 portfolio metrics
- 94.4% portfolio occupancy, 4.5 year weighted average lease expiry
- No significant single lease expiry until FY22 and only one expiry of greater than 1,000 sqm before FY20.

Lease expiry profile¹



1. As at 31 December 2017 by Net Lettable Area

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

Property	Area (sqm)	% of Portfolio ¹	Expiry
30 Pirie Street, Adelaide	2,063	1.9%	Vacant
5 Eden Park Drive, North Ryde	1,904	1.8%	Vacant
64 Northbourne Avenue, Canberra	1,761	1.6%	FY19
2 Eden Park Drive, North Ryde	1,427	1.3%	FY20
5 Eden Park Drive, North Ryde	1,252	1.2%	FY22
150 Charlotte Street, Brisbane	1,492	1.4%	FY22
10 Valentine Avenue, Parramatta	15,569	14.3%	FY22

Valuation summary

Uplift due to market parameters and leasing success

- Portfolio value increased to \$574.8 million, with an average rate per sqm of ~\$5,265
- Four properties externally revalued as at 31 December 2017 resulting in a 10.2% increase over the preceding book value for those properties revalued
- Weighted portfolio capitalisation rate reduced from 7.5% in June 2017 to 7.0%, 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	Cap rate change	Change in valuation ¹	31 Dec 17 valuation
468 St Kilda Road, Melbourne	Capitalisation rate compression, increase in market rents	6.00%	-75bps	 \$10.5m	\$61.5m
10 Valentine Ave, Parramatta	Capitalisation rate compression	7.25%	-50bps	 \$9.0m	\$95.0m
2 Eden Park Drive, North Ryde	Capitalisation rate compression, increase in market rents	7.00%	-100bps	 \$5.5m	\$40.0m
64 Northbourne Ave, Canberra	Negligible change	9.00%	No change	 \$0.1m	\$19.8m

1. Change in valuation from 30 June 2017 book value

Portfolio update

Activity occurring throughout the portfolio

Acquisition of 150 Charlotte Street, Brisbane

- Quality CBD, A Grade property consistent with AOF's strategy
- 100% occupied with long term leases to quality tenants such as Boeing Defence Australia and the Commonwealth of Australia
- Located in an improving section of the Brisbane CBD that is set to benefit from improved transport amenity.

Development opportunity at 10 Valentine Avenue, Parramatta

- Development application submitted under existing planning instruments
- Awaiting implementation of Parramatta CBD Planning Proposal that will increase floor space ratio
- Preliminary engagement with potential tenants, subject to planning approval

Potential sale of 32 Phillip Street, Parramatta

- NSW Government has advised that it wishes to enter into negotiations to acquire 32 Phillip Street, Parramatta.
- We are working through negotiations to ensure the best possible outcome for unitholders and customers.



150 Charlotte Street, Brisbane, QLD

Market overview

5 Eden Park Drive, North Ryde, NSW

Market overview

Most markets experiencing reasonable tenant demand and rental growth

- Most major markets have incurred positive net absorption.
- Sydney and Melbourne (and associated metro markets) have historically low vacancy and are incurring strong effective rental growth
- Other major office markets are seeing a flight to quality
- Canberra adversely impacted by increased vacancy in Tuggeranong sub market. Civic and Barton maintained comparatively lower vacancy
- Sydney prime gross effective rents remain substantially higher than all other major office markets.

Market	Vacancy June 17	12 Month Change	12 Month Net Absorption (sqm)	Prime Gross Effective Rent(\$/sqm)
Adelaide	15.1%	↓	20,850	\$270
Brisbane	14.9%	↓	33,208	\$386
Canberra	13.3%	↑	(22,133)	\$324
North Ryde	7.8%	↓	5,354	\$344
Parramatta	3.9%	↓	32,960	\$443
St Kilda Rd	7.9%	↓	5,432	\$402
Sydney	5.4%	↓	22,316	\$964
Melbourne	6.4%	↓	91,103	\$503
Perth	21.8%	↓	41,781	\$435
National	10.0%		300,802	N/A

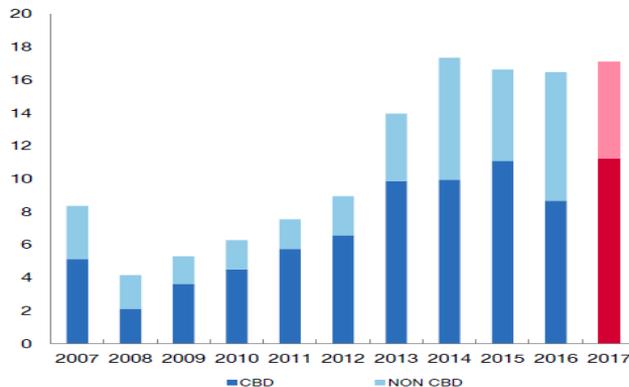
Source: JLL Research, data as at 31 December 2017

Market overview

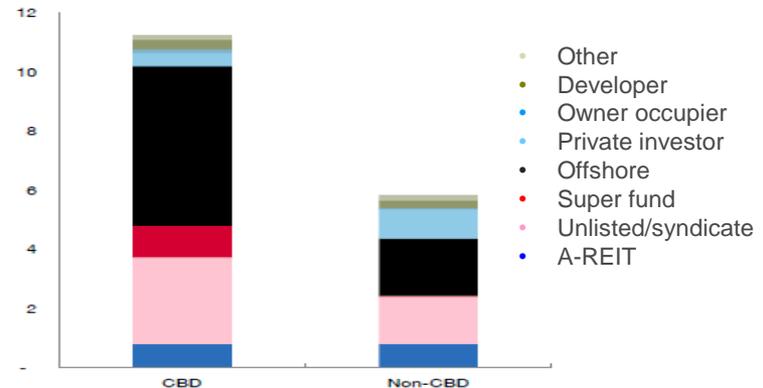
Investment demand remains very strong

- Very high levels of office sales occurred during 2017
- Strong purchaser competition saw continuing yield contraction throughout the year
- Investment demand from a diverse range of buyers, with offshore demand strongest
- Economic stability, relatively constrained supply and potential for rental growth are key drivers for investment demand
- Investment demand for metro markets is increasing for those markets supported by population growth and improving transport infrastructure.

Australia Office Sales Volumes
\$ billion total transaction value (\$10million+)



CBD versus Non-CBD Transactions 2017– by Purchaser Type
\$ billion total transaction value (\$10million+)



Graphs are sourced from Knight Frank Research

Summary

10 Valentine Avenue, Parramatta, NSW

Outlook

AOF remains well positioned to deliver on its objectives

Guidance

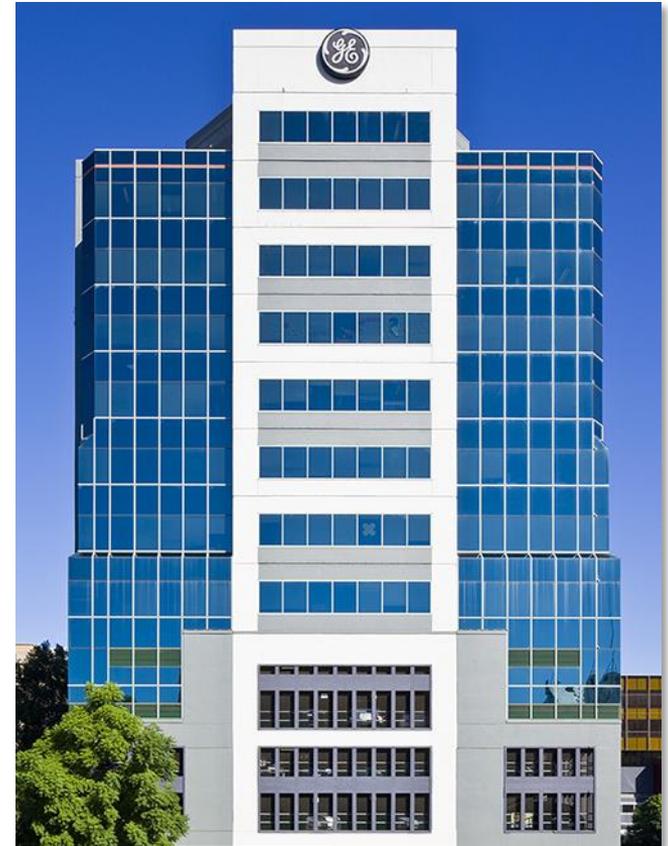
- FY18 FFO guidance of 17.1 – 17.3 cpu¹
- FY18 distribution guidance of 15.6 cpu¹

Immediate focus

- Improve portfolio occupancy and where possible, take advantage of increasing market rents
- Optimising negotiation outcomes with the NSW Government at 32 Phillip Street, Parramatta.

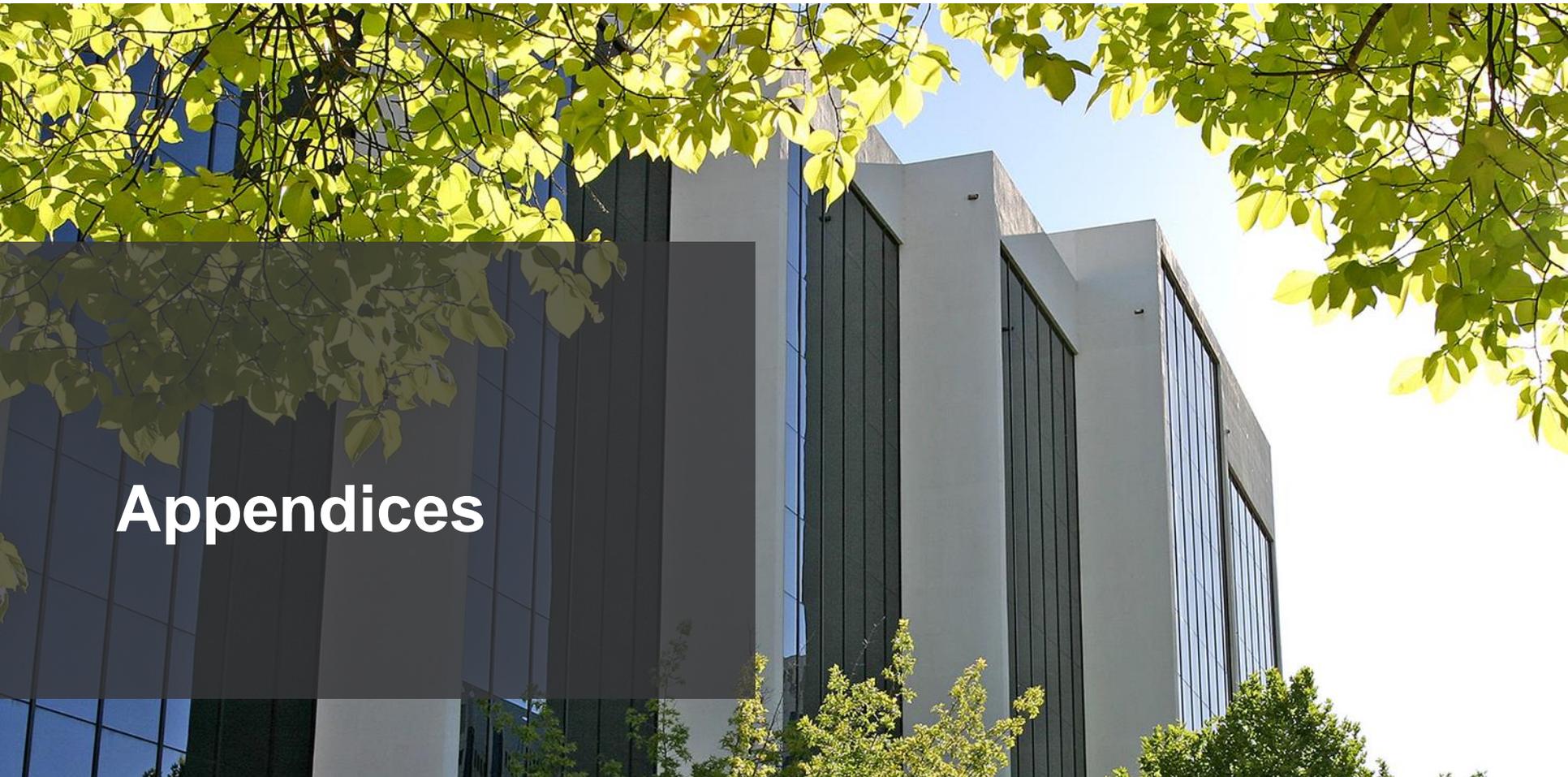
Growth strategy

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



32 Phillip Street, Parramatta, NSW

1. Subject to no material change in market conditions and no unforeseen events



Appendices

64 Northbourne Avenue, Canberra, ACT

Income statement

6 months to 31 December 2017	Actual (\$'000)	PDS ¹ forecast (\$'000)	Variance (\$'000)
Income Statement			
Rental income	24,882	22,000	2,882
Property expenses	(8,162)	(8,000)	(162)
Interest income	16	-	16
Net gain on financial assets	(317)	-	(317)
Net fair value increment of investment properties	14,876	-	14,876
Total income net of property expenses	31,295	14,100	17,195
Expenses			
Responsible Entity and Investment Manager fees	(1,534)	(1,300)	(234)
Borrowing costs	(2,970)	(2,600)	(370)
Other expenses	(522)	(500)	(22)
Total expenses, excluding property expenses	(5,026)	(4,400)	(626)
Profit attributable to unitholders	26,269	9,800	16,469

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

Reconciliation of statutory profit to Property Council FFO

6 months to 31 December 2017	Actual (\$'000)	PDS ¹ forecast (\$'000)	Variance (\$'000)
Statutory Net Profit	26,269	9,800	16,469
Adjusted for:			
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	1,368	2,400	(1,032)
Net gains on financial instruments held at fair value	317	-	317
Net fair value increment of investment properties	(14,876)	-	(14,876)
Funds From Operations	13,078	12,100	978
Retained Earnings	(1,253)	(1,200)	(53)
Distributions	11,825	10,900	925

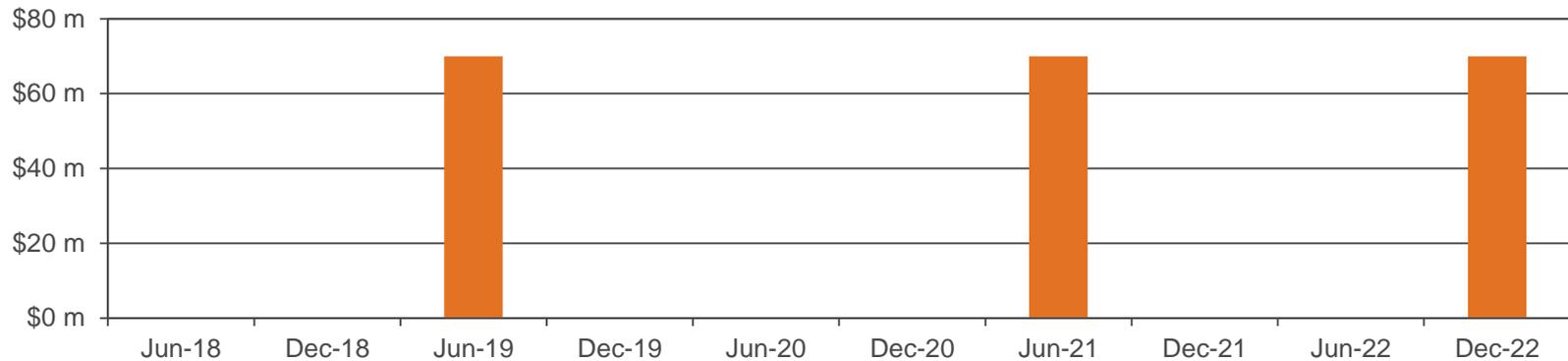
1. Product Disclosure Statement dated 23 May 2016 (PDS)

Balance sheet

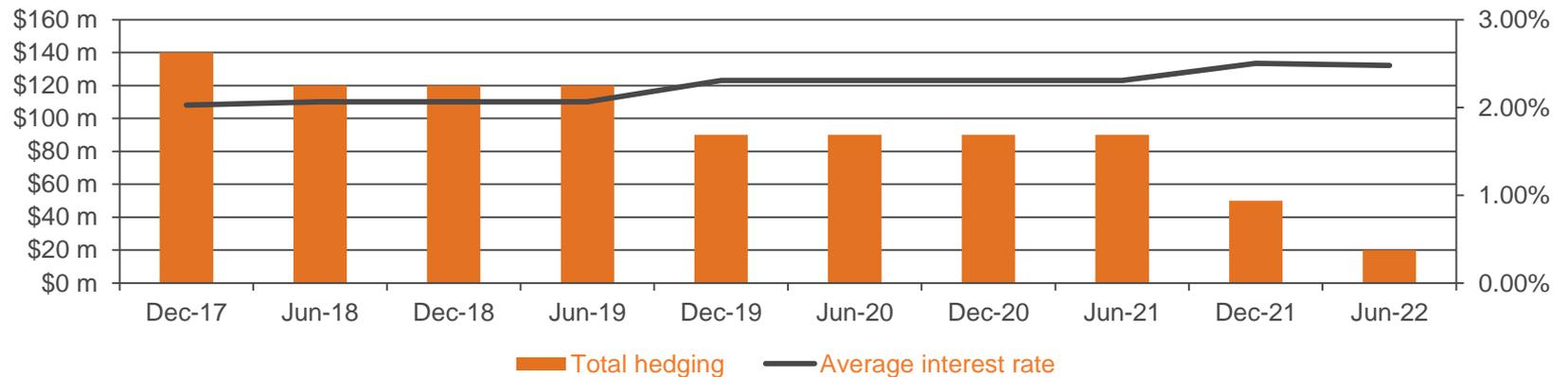
\$'000	31 Dec 2017	30 June 2017	Movement
Assets			
Cash and cash equivalents	4,087	4,118	(31)
Receivables	1,154	432	722
Financial assets	0	232	(232)
Other assets	428	361	67
Investment properties	574,784	441,067	133,717
Total Assets	580,453	446,210	134,243
Liabilities			
Distributions payable	6,350	5,334	1,016
Payables	3,897	4,332	(435)
Financial liabilities	85		85
Borrowings	193,524	122,817	70,707
Total Liabilities	203,856	132,483	71,373
Net Assets	376,597	313,727	62,870
Number of units on issue (million)	162.8	140.4	22.4
Net Tangible Assets per unit	\$2.31	\$2.23	\$0.08
Gearing	33.0%	27.0%	6.0%

Capital management

Debt facility expiry profile



Interest rate hedging & average hedged interest rate



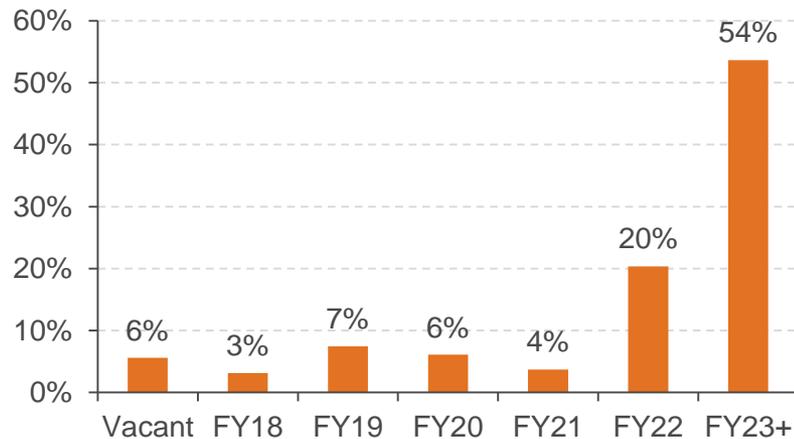
Key portfolio metrics

As at 31 December 2017

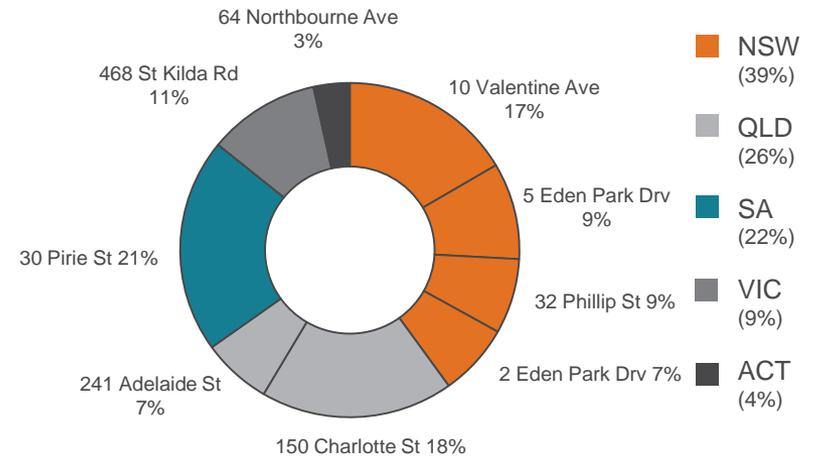
Key portfolio metrics

Number of properties	9
Occupancy ¹	94.4%
Portfolio Value	\$574.8m
Weighted Average Capitalisation Rate	7.0%
WALE ²	4.5 years
Net Lettable Area	108,626 sqm

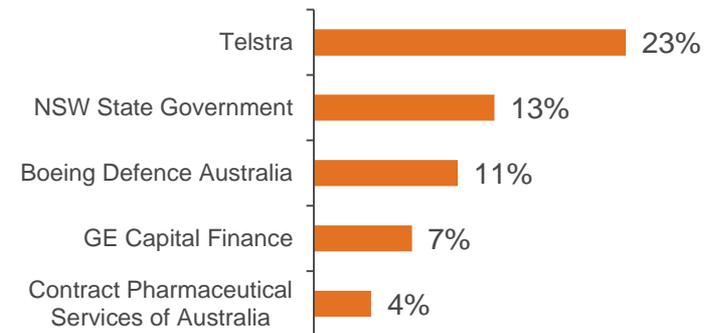
Lease expiry profile¹



Geographic diversification³



Top 5 tenants²



1. As at 31 December 2017, by Net Lettable Area
 2. As at 31 December 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 31 December 2017 by book value

Investment portfolio

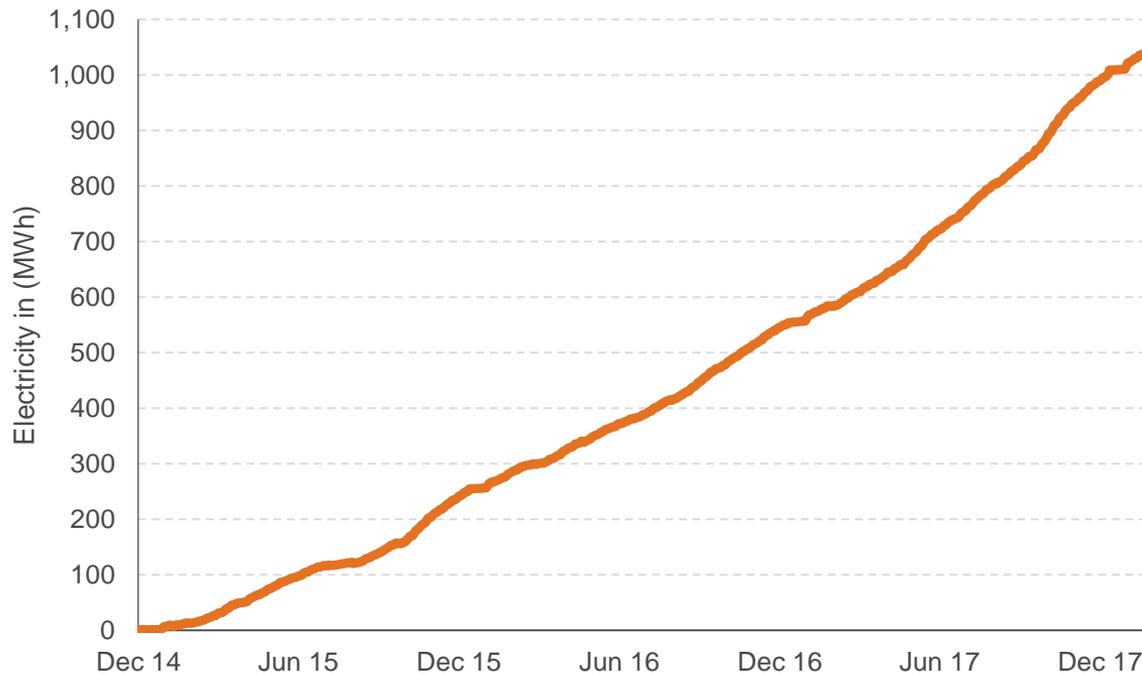
As at 31 December 2017

	Property	State	Dec 17 book value	Cap rate	NLA (sqm)	WALE ¹ (years)	Occupancy (by NLA)
Single or Dominant Tenant Assets	30 Pirie Street, Adelaide	SA	\$119.2m	7.50%	24,781	5.2	91.7%
	150 Charlotte Street, Brisbane	QLD	\$105.8	6.00%	11,011	5.3	100.0%
	10 Valentine Avenue, Parramatta	NSW	\$95.0m	7.25%	15,995	4.3	100.0%
	5 Eden Park Drive, North Ryde	NSW	\$53.7m	6.75%	11,121	6.7	82.9%
	32 Phillip Street, Parramatta	NSW	\$41.7m	7.00%	6,759	5.5	100.0%
Multi Tenant Assets	468 St Kilda Road, Melbourne	VIC	\$61.5m	6.00%	11,186	3.9	94.9%
	2 Eden Park Drive, North Ryde	NSW	\$40.0m	7.00%	10,345	2.6	100.0%
	241 Adelaide Street, Brisbane	QLD	\$38.2m	8.50%	11,009	2.4	91.4%
	64 Northbourne Ave, Canberra	ACT	\$19.8m	9.00%	6,419	3.6	91.1%
Total (T) / weighted average(A)			\$574.8m (T)	7.00% (A)	108,626 (T)	4.5 (A)	94.4% (A)

1. As at 31 December 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

Portfolio Electricity Consumption Performance



- Indicates electricity savings compared to 'baseline'
- 'Baseline' is the electricity consumption for 2014 adjusted for weather patterns and seasonality.
- ~1000 MWh is the equivalent of ~1000 tonnes of CO²
- Represents a cost saving of ~\$200k across the three years

Australian Unity Office Fund

Board of Directors – Australian Unity Investment Real Estate Limited



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**, Executive General Manager, Property; **Simon Beake**, Portfolio Manager; **Grant Nichols**, Fund Manager; **Giovanna Reale**, Asset Manager



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