

ASX Announcement – Australian Unity Office Fund

11 April 2018

Investor presentation

Attached is a presentation being delivered at the FNN Investor Event on Wednesday 11 April 2018.

ASX code:

AOF

Issuer:

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Limited

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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 Australian Unity Limited ABN 23 087 648 888.

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.



Australian Unity Office Fund

(ASX: AOF)
2018 FNN Investor Event

11 April 2018

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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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AOF's clear, well defined, investment objective and strategy

Objective	Strategy
<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>	<p>1 Invest in Australian office assets located in metropolitan and CBD markets</p>
	<p>2 Grow net property income</p>
	<p>3 Enhance capital values through active asset management</p>
	<p>4 Deliver sustainable and growing income returns via quarterly distributions</p>
	<p>5 Target gearing below 40%</p>
	<p>6 Maintain diversification through investment into existing properties and potential future acquisitions</p>

AOF at a glance¹

Total Assets \$580 million

17.1-17.3 cpu

FY18 FFO Guidance

\$2.31

NTA Per Unit

~ 90%

Payout Ratio

15.6 cpu

FY18 Distribution Guidance

4.5 years

WALE

94.4%

Occupancy

7.00%

Weighted Av Cap Rate

9

Assets

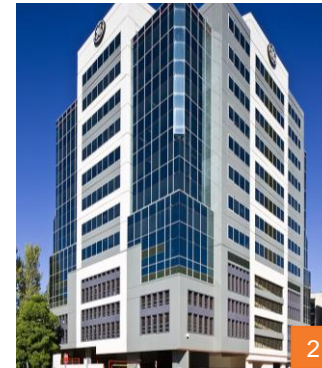
33%

Gearing

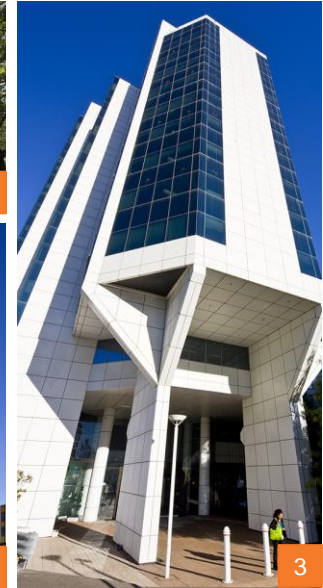
1. As at 31 December 2017



1



2



3

1. 468 St Kilda Rd, Melbourne, VIC
2. 32 Phillip St, Parramatta, NSW
3. 10 Valentine Ave, Parramatta, NSW

Manager overview

Australian Unity Group

		
<p>Retail</p> <p>Innovative solutions that offer great value to our customers</p>	<p>Wealth & Capital Markets</p> <p>Investment solutions for every life stage</p>	<p>Independent & Assisted Living</p> <p>Creating communities that enhance wellbeing</p>
<ul style="list-style-type: none"> • Health insurance • Banking • General insurance & Broking 	<ul style="list-style-type: none"> • Advice • Investments • Life & Super • Property • Trustees 	<ul style="list-style-type: none"> • Aboriginal home care • Home & Disability Services • Independent & assisted aged care services

Manager overview

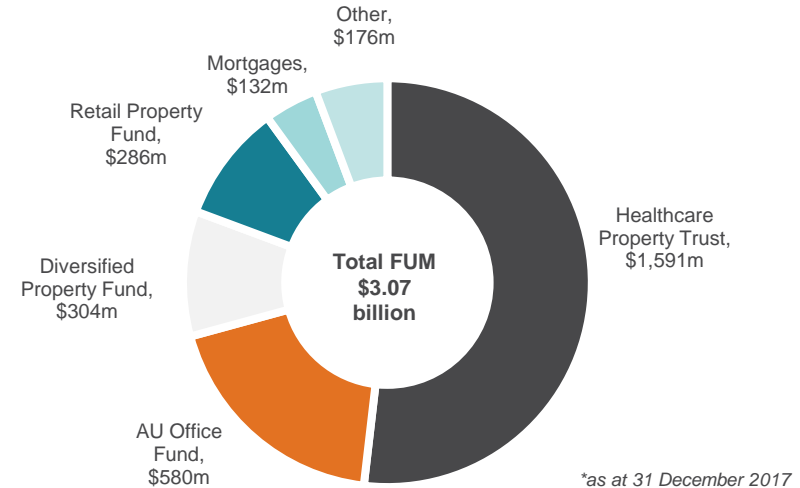
Australian Unity Property

- A comprehensive real estate platform, established 1998
- \$3.07 billion of real estate funds under management (FUM) as at 31 December 2017
- Managing more than 74 properties across the healthcare, retail and office sectors across Australia
- Deep expertise with 35 specialist staff as well as support from the wider Australian Unity Group
- Diversified offering of listed and unlisted property funds
- Master developer for the \$1.1 billion Herston Quarter redevelopment in Brisbane

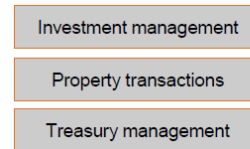
Awards



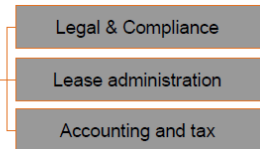
In 2013, the Australian Unity Property team was named the Direct Property Fund Manager of the Year. We were also finalists for the award in 2014, 2016 and 2017.



Australian Unity Property

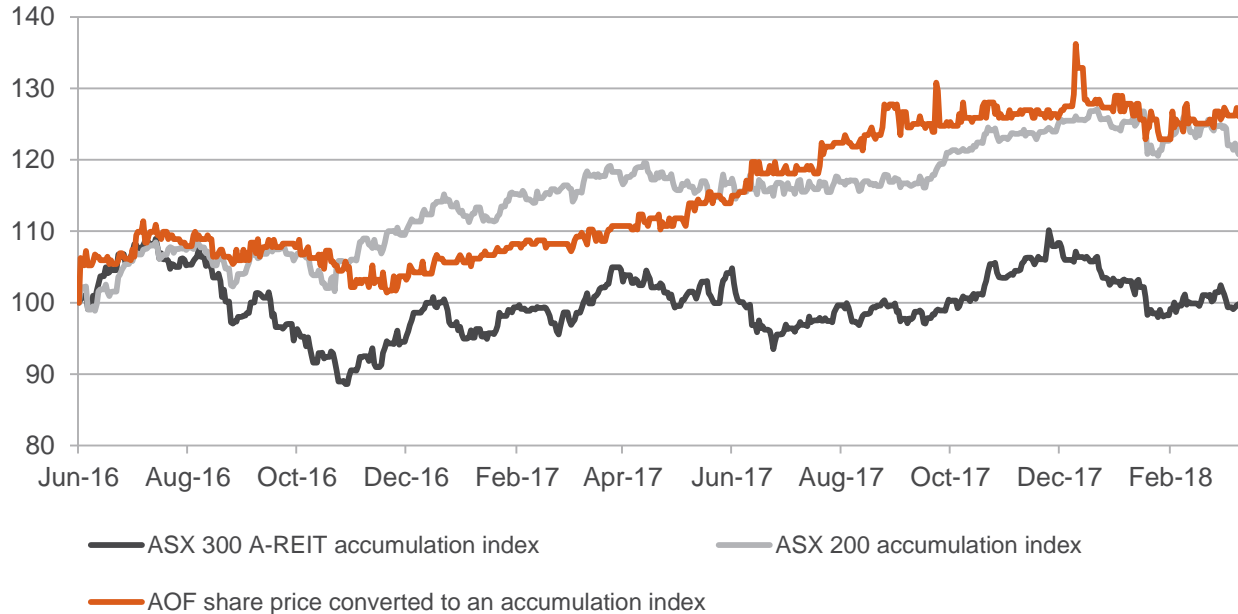


Support services



Performance since listing

AOF share price converted to an accumulation index



Notes:

1. AOF share price has been converted to an accumulation index by assuming all distributions are re-invested at the ex-distribution price, with no transaction costs.
2. All accumulation indices have been rebased to 100 on the 20 June 2016 (the date AOF first traded on the ASX)

Source: Australian Unity, Fact Set

Performance since listing

July 2016 – Dec 2017 : Key financial metrics

Key metric	Actual	PDS ¹ forecast		Change
Statutory Net Profit ²	\$86.9 m	\$27.8 m	↑	+\$59.1m
FFO ^{2,3}	\$37.1 m	\$35.2m	↑	+\$1.9m
FFO per unit ^{2,3}	25.7 cpu	25.0 cpu	↑	+0.7 cpu
Distribution ²	\$32.9 m	\$31.7 m	↑	+\$1.2m
Distribution per unit ²	22.8 cpu	22.6 cpu	↑	+0.2 cpu
NTA per unit	\$2.31 ⁴	\$1.96 ⁵	↑	+\$0.35
Return on NTA ⁶	29.5% for the 18 month period to 31 Dec 17			

- Net profit up \$59.1 million, largely due to increase in asset valuations.
- FFO and distribution up by 0.7 cpu and 0.2 cpu respectively primarily due to better than forecast leasing outcomes.
- Higher NTA predominately due to increase in asset valuations.

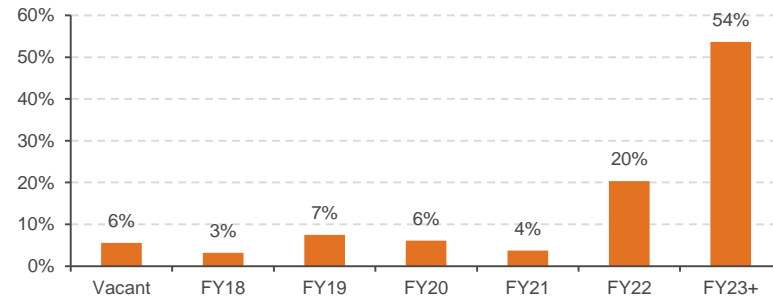
1. Product Disclosure Statement dated 23 May 2016
2. 18 months to 31 December 2017
3. FFO means Funds From Operations
4. As at 31 December 2017
5. PDS forecast as at allotment on 22 June 2016
6. Return for the period from 1 July 2016 to 31 December 2017 calculated as the movement in AOF's net asset value plus distributions for the period $((\$2.31 + \$0.228) / \$1.96) - 1 = 29.5\%$

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

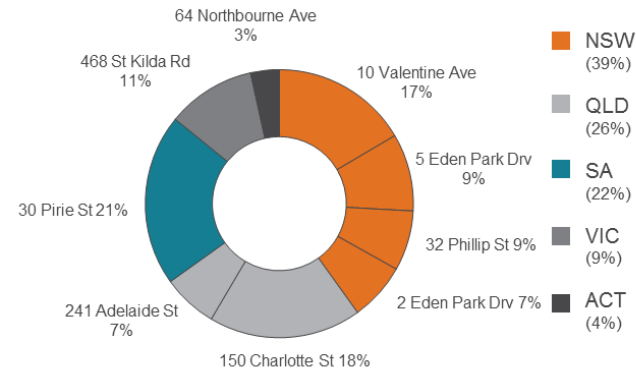


1. As at 31 December 2017, by Net Lettable Area

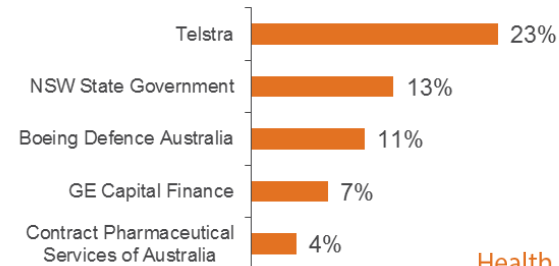
2. As at 31 December 2017, by Gross Property Income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 45 years remaining on the lease and would thus distort the metric

3. As at 31 December 2017 by book value

Geographic diversification³

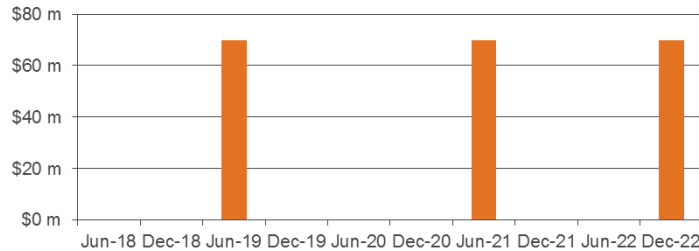


Top 5 tenants²

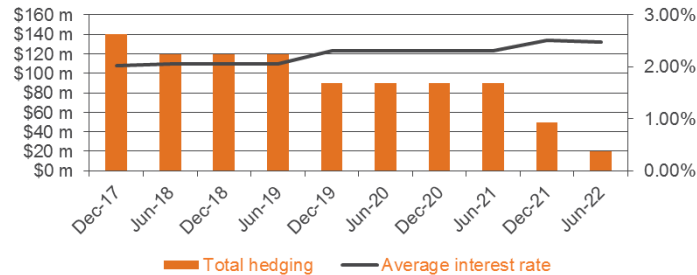


Capital management

Debt facility expiry profile¹



Interest rate hedging & average hedged interest rate¹



Capital management objective

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

31 Dec 2017

Total borrowings² \$194.5m

Gearing³ 33.0%

Weighted average cost of debt 3.7%

Hedging average interest rate⁴ 2.1%

Weighted average debt term to maturity 3.2 years

Interest cover ratio 5.65x

Weighted average term of interest rate hedging 2.8 years

1. As at 31 December 2017

2. Total borrowings represent the bank loans and excludes unamortised borrowing costs

3. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash

4. Excludes financier's margin, line fee and establishment fee

AOF's portfolio



1. 32 Phillip St, Parramatta, NSW
2. 2 Eden Park Dr, North Ryde, NSW
3. 64 Northbourne Ave, Canberra, ACT
4. 30 Pirie St, Adelaide, SA
5. 150 Charlotte St, Brisbane, QLD
6. 5 Eden Park Dr, North Ryde, NSW
7. 10 Valentine Ave, Parramatta, NSW
8. 468 St Kilda Rd, Melbourne, VIC
9. 241 Adelaide St, Brisbane, QLD

150 Charlotte St, Brisbane

Strategic acquisition with strong cashflow in an improving market

1

Located in the heart of the Brisbane CBD

- Centre of Brisbane CBD adjacent to the 'Golden Triangle'
- Major bus, ferry and train networks and the Queen Street Mall shopping precinct are in close proximity to the asset

2

Quality 'A' Grade property consistent with AOF's strategy

- Comprises over 11,000sqm of NLA across 17 floors with a largely column free floor plate
- 4 star NABERS energy and 4 star NABERS water ratings
- Substantial \$21 million repositioning was completed in 2012 resulting in minimal near-term capital expenditure requirement

3

100% occupied with a 5.7 year WALE¹

- Major tenants include Boeing Defence Australia (Boeing) (64% of income) and the Commonwealth of Australia (DFAT) (13% of income)

4

Enhances AOF's portfolio WALE, occupancy and lease expiry profile

- Increase in portfolio occupancy to over 94.2% and WALE to 4.8 years¹
- Rental reviews of 4.0% p.a. (relating to the acquisition)

5

Capitalises on an opportunity in the improving Brisbane market

- 10 consecutive quarters of positive net absorption
- Limited new supply is expected across the Brisbane CBD in the near term
- Capitalisation rate spread between the Brisbane and Sydney CBD's is significant



150 Charlotte Street, Brisbane, QLD

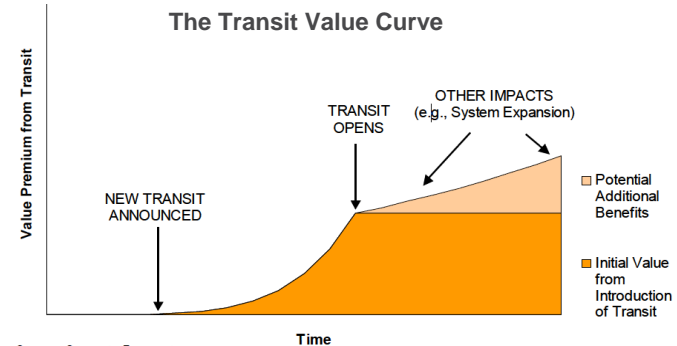
Source: Public disclosures, JLL Research, Savills

1. By Gross Property Income as at 30 June 2017

Properties in strategic locations

AOF's properties to benefit from infrastructure projects

- Many of the markets in which AOF is invested will benefit from current infrastructure projects.
- Access and transport amenity is a key tenant requisite which is becoming increasingly important.
- Property within close proximity to infrastructure projects can benefit from rezoning.



Source: Strategic Economics.

Market	Infrastructure Project
Brisbane	Cross River Railway
Canberra	Transport Canberra Light Rail Network
North Ryde	Sydney Metro Northwest
Parramatta	Westconnex Parramatta Light Rail Sydney Metro West
St Kilda Road	Metro Tunnel / Domain Station



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 Dec 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

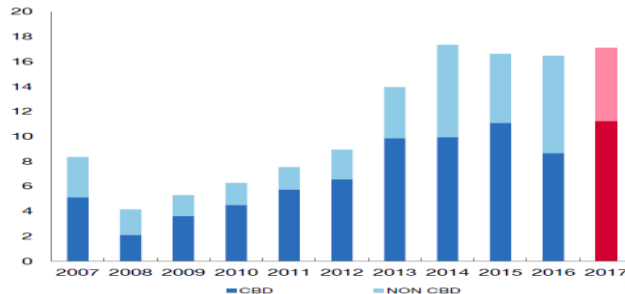
Source: JLL Research, data as at 31 December 2017

Market overview

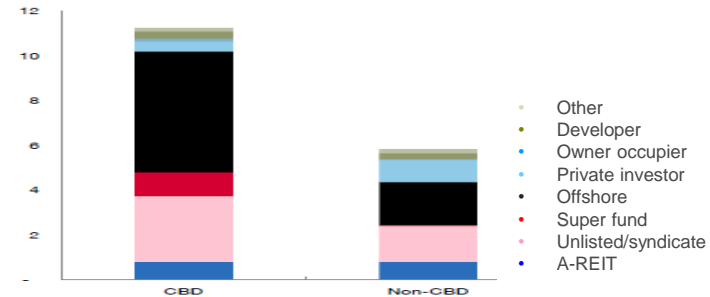
Investment demand remains very strong

- 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

Management team



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