

22 August 2018

FY18 Results – FFO \$30.1 million: Active and aligned management delivering outcomes**Highlights**

- Funds From Operations (FFO) \$30.1 million, up 7.9% on pcp and in-line with guidance
- Net Tangible Assets up 5.1%, from \$2.57 to \$2.70 per security
- Active asset management driving 13,600 square metres of leasing and improving income visibility – with only 2% of income expiring in Financial Year 2019
- Balance sheet well positioned post \$71 million refinance – 31.0% gearing at 30 June 2018 and 5.8x interest cover
- Healthy outlook underpinned by a passive and growing income stream, with 2.5 – 3.5% FFO growth forecast for FY19

Financial Results

Net profit attributable to security holders for the 12 months ending 30 June 2018 was \$48.2 million, lower than the prior corresponding period (\$101.6 million) primarily due to statutory items including higher valuation outcomes in the prior period.

FFO per security rose 2.2%, from 18.1 to 18.5 cents, in-line with guidance of 2 – 3% growth for the year. Growth was underpinned by 3% rental uplifts across 82% of the portfolio and a full period contribution from WesTrac Newcastle, partially being offset by downtime at selected assets.

Distributions totalled \$26.9 million, up 3.1% on pcp, or from 16.0 to 16.5 cents per security, and were paid quarterly – reflecting the consistent and sustainable income attributes of Industria REIT.

Net Tangible Assets (NTA) increased \$20.6 million to \$440.0 million – or 13 cents per security to \$2.70, up 5.1%. The increase in NTA was largely attributable to rental growth and new pricing benchmarks across the industrial assets in the portfolio, which were independently valued.

Alex Abell, Industria's Fund Manager said: "We are pleased the ongoing execution of our asset management strategies has delivered another year of income and capital growth for our investors. Being across the detail has allowed us to understand client preferences and deliver leasing outcomes that have contributed to additional revenue in FY18 whilst also improving the outlook, with only 2% of income expiring in FY19.

"The balance sheet is also in great shape with low gearing and minimal refinance risks – providing the flexibility required to execute on further growth and capital management initiatives when opportunities arise."

Property Portfolio

Occupancy remained high at 95% and the portfolio maintains a long weighted average lease expiry (WALE) of 6.9 years. Leasing highlights included:

- Rhodes: successful execution of the small suite strategy, with 2,400 square metres leased at rents ahead of our expectations;
- BTP: continued active management propelled further leasing, with 6,800 square metres completed. Activity has continued into FY19, with terms agreed over 900 square metres of vacancy;
- Butler Boulevard, Adelaide Airport: 4,300 square metres of leasing completed, with the quality of the asset continuing to attract high profile companies including Toyota, Miele and Provet.

Value add initiatives completed during the year included the installation of 700 Kilowatts of solar PV across five buildings at BTP. The installation is now harnessing energy from the sun to power Industria's properties, providing a 15% return on cost and creating a point of difference from competitors. Furthermore, Industria's clients will be provided with more affordable energy with less volatility, a "win-win" outcome that demonstrates our focus on helping our clients businesses prosper. Experience gained through this process is being utilised across the remainder of the portfolio, with ~180 Kilowatts being installed at Rhodes, and over 1 Megawatt under consideration across various industrial properties.

Opportunities to outperform in financial year 2019 are largely concentrated at BTP. Industria REIT is the largest owner of workspaces at BTP, and the scale and on-the-ground management presence delivers competitive advantages that will result in higher occupancy and rent outperformance over the long term.

David Avery, Senior Portfolio Manager for Industria REIT, said: "Our focus remains on creating workspaces that exceed the expectations of our clients. Delivering on this has ensued another successful period of leasing and we are confident of being able to continue to execute opportunities moving forward."

Independent Valuations

During the financial year seven properties were independently valued which resulted in a \$20.2 million increase over the 12 months. Highlights from the independent valuations included:

- 1-3 Westrac Drive \$197.0 million; increase of \$13.0 million (+7%) – driven by increased rents and lower cap rates, as new pricing benchmarks provided evidence that high quality properties with strong cash flows remain aggressively bid by investors; and
- 5 Butler Boulevard \$14.0 million; increase of \$1.7 million (+14%) – with lease up of vacancy during the period providing greater cash flow certainty.

Other valuation outcomes included: 80-96 South Park Drive \$23.5 million (increase of \$1.5 million (+7%)); 89 West Park Drive \$21.0 million (increase of \$1.5 million (+8%)); 32-40 Garden Street \$18.3 million (increase of \$1.3 million (+7%)); 34 Australis Drive \$29.3 million (increase of \$1.2 million (+4%)); and 140 Sharps Rd \$13.5 million (consistent with prior book value).

Capital Management

The syndicated financing arrangement for Industria REIT was restructured to a club structure (Common Terms Deed with bi-lateral Facility Agreements) during the period. The benefits of this new arrangement include more flexible terms and conditions, and the ability to bring in new financiers on pre-agreed terms to support future growth initiatives. The restructure included new 5 year debt to refinance \$46 million maturing in December 2018, and an additional \$25 million to finance the post balance date acquisition of 13 Ricky Way and 10 Jersey Drive, Epping (outlined below).

Key metrics as at 30 June 2018 included: gearing 31% (target band 30 – 40%); interest cover 5.8x; weighted average interest cost 3.4%; and weighted average debt maturity 3.3 years.

Commenting on the successful refinance, Alex Abell stated: "The refinancing is a major milestone that demonstrates the benefits of being part of the APN Property Group. APN's expertise as a real estate manager, combined with a co-investment of \$71 million, creates a platform that is leveraged to deliver optimal terms, conditions and pricing – ensuring Industria's balance sheet continues to remain well positioned."

Post balance date event

The \$15.7 million acquisition of 13 Ricky Way and 10 Jersey Dr, Epping, settled on the 11th of July 2018. The acquisition will generate a yield of 7.45% growing at 3.25% per annum for a weighted average lease term of 6.3 years.

The facilities comprise of two adjoining, separately titled, modern warehouse and office facilities constructed in 2008 and 2015. The properties are occupied by Edlyn Foods, a nationally recognised supplier in the food service industry established in the 1920's with a customer base ranging from quick service restaurants to hospitals and aged care facilities.

Overview and outlook

Opportunities to deploy capital to generate sustainable long term returns remain challenging, although from time to time the opportunity to acquire quality real estate below replacement cost does emerge. Management will continue to be patient and selective when pursuing acquisitions, ensuring that they are attractively priced and meet the strategic filters of being: well located; functional; and affordable for potential clients.

The outlook for financial year 2019 is underpinned by a passive income stream, and consistent with our previous results, there will be no exposure to potentially volatile outcomes from development profits or funds management activities. Outcomes from delivering our asset management strategies will remain a key focus and will boost the organic growth that exists across the portfolio, whilst also adding value.

Full year FFO guidance is 18.95 to 19.15 cents per security, representing 2.5 – 3.5% growth over FY18. Distributions are forecast to increase 3% to 17.0 cents per security. Guidance is subject to current market conditions continuing and no unforeseen events.

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About Industria REIT

Industria (ASX code: IDR) is a listed Australian real estate investment trust which owns interests in office and industrial properties that provide functional and affordable workspaces for business. Industria's \$676 million portfolio of 23 properties located across the major Australian cities provides sustainable income and capital growth prospects for security holders over the long term. Industria has a target gearing band of 30 – 40%, providing flexibility for future growth without compromising the low-risk approach to management. Industria is managed by APN Property Group, a specialist real estate investment manager established in 1996, and governed by a majority independent Board.

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