

Australian Unity Office Fund

(ASX: AOF)

2018 Full Year Results

Presentation – 24 August 2018

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5 Eden Park Drive, North Ryde, NSW

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Introduction

R Y D E C O R P

2 Eden Park Drive, North Ryde, NSW

Australian Unity at a glance

AOF's investment manager – reputable and a strong track record

Trusted mutual

- More than 175 years as an Australian mutual
- 280,000 members; almost 1 million customers; 7,500 employees
- Profits reinvested into programs and services that benefit members and customers, and create community value
- Regulated by APRA, ASX and ASIC
- AOF's responsible entity comprises a separate board, including independent directors

Strong track record

- \$3.3 billion property funds under management across 93 assets¹
- \$1.1 billion property development pipeline¹
- 32,000+ property investors¹
- Money Management's Fund Manager of the Year 2018 – Direct Property

1. As at 30 June 2018

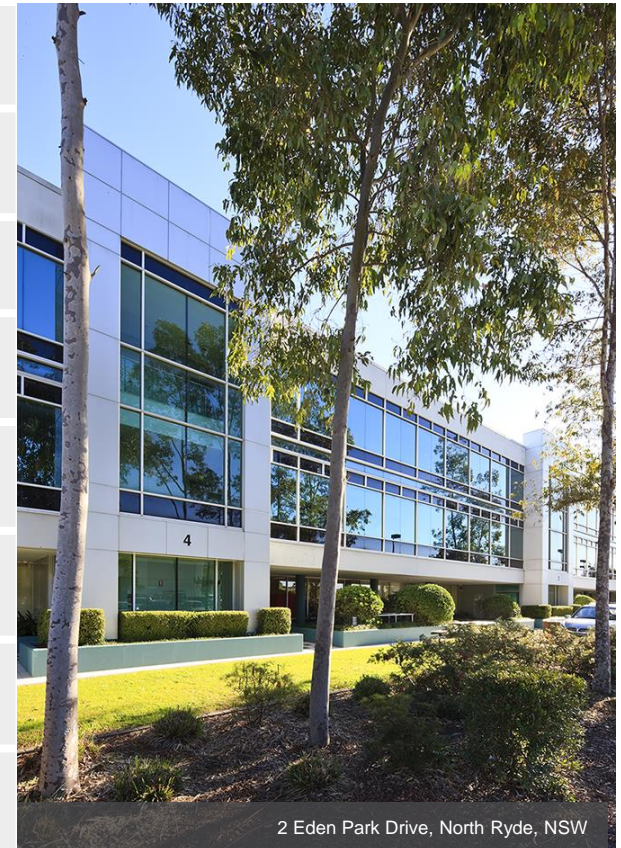
AOF's results

468 St Kilda Road, Melbourne, VIC

AOF's 2018 full year result highlights

Delivered on guidance, strong NTA growth

1	Statutory Net Profit of \$97.3 million
2	NTA increased 20% to \$2.67 per unit ¹ (30 June 2017 \$2.23)
3	Fund From Operations (FFO) 17.2 cpu ² (guidance 17.1 -17.3 cpu)
4	Portfolio value increased by \$194.5 million to \$635.6 million
5	\$50 million of new equity raised, market capitalisation increased to \$433 million ³
6	\$150 million debt facilities established or refinanced
7	Increased average debt maturity to 4.1 years ⁴
8	Gearing at 30.2% ⁵



1. As at 30 June 2018
2. For 12 months to 30 June 2018
3. As at 23 August 2018, based on trading price of \$2.66
4. After payment of \$35,000,000 on or before 8 August 2018, as part of the June 2018 refinancing
5. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash

AOF's 2018 full year result highlights

Delivered on key objectives

Vision	To be Australia's leading income focused office A-REIT								
	Portfolio Construction			Capital Management			Investment Return		
Key objectives	A portfolio of Australian metropolitan and CBD office assets diversified by geography, tenants and lease expiry			A robust capital structure, with conservative gearing, that can withstand cycles and enable growth			Deliver stable, sustainable income returns via quarterly distributions with the opportunity for capital growth		
Key outcomes	Acquired 150 Charlotte St, Brisbane	DA received for 10 Valentine Ave, Parramatta	Strong leasing outcomes	NTA per unit increased 20%	Refinanced debt and extended tenure	Gearing within target range	Greater market capitalisation	EPU and DPU delivered on guidance	Strong total shareholder return
	Total assets \$643 million ¹ (\$446 million at 30 June 2017)	Clear growth path	Occupancy at 95.0% ¹ (93.5% at 30 June 2017)	NTA per unit \$2.67 ¹ (\$2.23 at 30 June 2017)	Debt term 4.1 years ^{1,4} (3.0 yr at 30 June 2017)	Gearing at 30.2% ^{1,5} (27.0% at 30 June 2017)	Mkt cap \$433 million ³ (\$312 million at 30 June 2017)	FFO 17.2 cpu ² (17.1-17.3 cpu guidance)	50% since IPO ⁶

1. As at 30 June 2018

2. For 12 months to 30 June 2018

3. As at 23 August 2018, based on trading price of \$2.66

4. After payment of \$35,000,000 on or before 8 August 2018, as part of the June 2018 refinancing

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

6. For the period from 20 June 2016 (the IPO date) to 14 August 2018



Financial results

30 Pirie Street, Adelaide, SA

Financial results

Full year 2018 – key financial metrics

Key metric	FY18	FY17	Change
Statutory net profit	\$97.3m	\$60.6m	↑ +\$36.7m
FFO ¹	\$27.0m	\$24.0m	↑ +\$3.0m
FFO per unit ¹	17.2 cpu	17.1 cpu	↑ 0.1 cpu
Distribution	\$24.5m	\$21.1m	↑ +\$3.4m
Distribution per unit	15.6 cpu	15.0 cpu	↑ 0.6 cpu
NTA per unit	\$2.67	\$2.23	↑ +\$0.44
Return on NTA ²	26.7% for the twelve month period to 30 June 2018		

1. FFO means Funds From Operations

2. Return for the period from 1 July 2017 to 30 June 2018 calculated as the movement in AOF's net tangible assets plus distributions for the period $((\$2.67 + \$0.156 / \$2.23) - 1 = 26.7\%)$

- Statutory net profit up \$36.7 million, largely due to increase in asset valuations as a result of lower cap rates and higher market income.
- FFO and distribution up by \$3.0 million and \$3.4 million respectively primarily due to acquisition of 150 Charlotte Street, Brisbane.
- Higher NTA predominately due to increase in asset valuations.
- All assets were independently revalued as at 30 June 2018 reflecting strong investment market conditions.

Financial results

Full year 2018 – capital management

	30 June 2018	30 June 2017	Change
Total borrowings ¹	\$198.3m	\$123.5m	+\$74.8m
Total debt facilities	\$220.0m ²	\$140.0m	+\$80.0m
Gearing ³	30.2%	27.0%	+3.2%
Weighted average cost of debt	3.9%	3.6%	+0.3%
Weighted average debt term to maturity	4.1 years	3.0 years	+1.1 years
Interest cover ratio	5.05x	6.45x	-1.40x
Weighted average interest rate of live swaps ⁴	2.1%	1.9%	+0.2%
Weighted average term of interest rate hedging	3.0 years	3.2 years	-0.2 years

1. Total borrowings represent the bank loans and excludes unamortised borrowing costs
2. The total debt facilities were \$255 million at 30 June 2018 but reduced by \$35 million on or before 8 August 2018 as part of the refinancing arrangement agreed in June 2018
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

- Debt diversified by three separate tranches and two major banks (CBA and NAB)
- \$70 million new debt facility with an October 2022 expiry for the 150 Charlotte Street acquisition
- Existing \$70 million debt facility refinanced from June 2019 to June 2023 and facility limit increased by \$10 million
- Borrowings were 60.5% hedged as at 30 June 2018
- Interest cover ratio remains well above debt covenant of 2.0x

Portfolio management

32 Phillip Street, Parramatta, NSW

Portfolio highlights

Strong portfolio growth with solid leasing activity

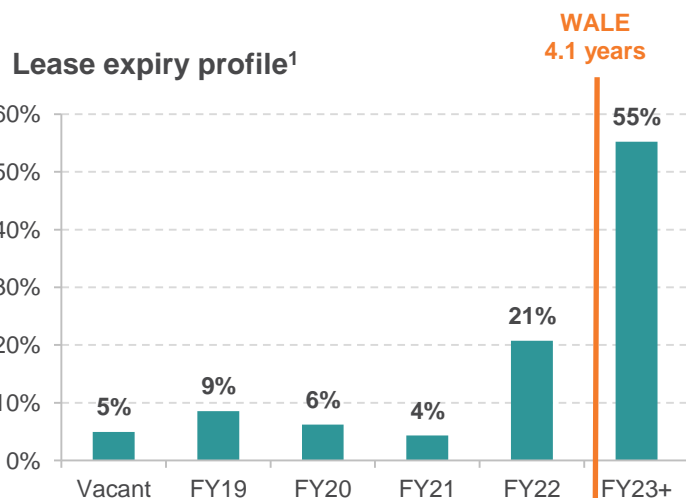
	1	Portfolio value increased by \$194.5 million to \$635.6 million
	2	Acquisition of 150 Charlotte St, Brisbane for \$105.75 million
	3	81% exposure (by value) to the eastern seaboard
	4	~8,200 sqm of new leases completed (28 transactions), representing ~7.6% of the portfolio by area
	5	~5,600 sqm of completed leases related to previously vacant space (19 transactions)
	6	Portfolio occupancy increased to 95.0% (93.5% at 30 June 2017)
	7	Development approval received for new office development adjacent to existing 10 Valentine Avenue, Parramatta building
	8	Earnings underpinned by high quality tenants including Telstra, NSW State Government, Boeing Defence Australia and GE Capital Finance (54% of income)

10 Valentine Avenue, Parramatta, NSW

Leasing summary

Leasing conditions and enquiry continue to improve

- ~5,600 sqm of completed leases related to previously vacant space, increasing portfolio occupancy to 95.0% (93.5% as at 30 June 2017)
- ~2,700 sqm of executed leases or signed heads of agreement not included in 30 June 2018 portfolio metrics
- No significant single lease expiry until FY22 and only one expiry of greater than 1,000 sqm during FY19 (Cushman and Wakefield at 64 Northbourne Avenue, Canberra)
- Immediate key leasing focus on 30 Pirie Street, Adelaide, 241 Adelaide Street, Brisbane, and 64 Northbourne Avenue, Canberra



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

Property	Area (sqm)	% of Portfolio ¹	Expiry
30 Pirie Street, Adelaide	2,063	1.9%	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

1. As at 30 June 2018 by Net Lettable Area

Valuation summary

Uplift driven by improving market parameters

	Current cap rate	Cap rate change ¹	Change in valuation ²	30 June 18 valuation
30 Pirie St, Adelaide	7.50%	No change	↑ \$2.5m	\$121.5m
10 Valentine Ave, Parramatta	6.25%	-100bps	↑ \$29.0m	\$115.0m
150 Charlotte St, Brisbane	6.00%	No change	No change	\$105.8m
468 St Kilda Rd, Melbourne	5.50%	-50bps	↑ \$20.3m	\$71.3m
5 Eden Park Dr, North Ryde	6.25%	-50bps	↑ \$9.1m	\$61.5m
32 Phillip St, Parramatta	6.25%	-75bps	↑ \$14.8m	\$56.5m
2 Eden Park Dr, North Ryde	6.50%	-50bps	↑ \$9.8m	\$44.3m
241 Adelaide St, Brisbane	7.75%	-75bps	↑ \$0.7m	\$37.5m
64 Northbourne Ave, Canberra	7.75%	-125bps	↑ \$2.6m	\$22.3m

- All assets were independently revalued as at 30 June 2018 reflecting strong investment market conditions
- Capitalisation rate compression, increasing market rents (+7%) and leasing outcomes all contributed to the valuation increases
- Portfolio weighted average capitalisation rate now 6.52%
- Portfolio average value at \$5,904 per sqm
- The valuation of 10 Valentine Ave, Parramatta does not take into account any development potential

Portfolio update

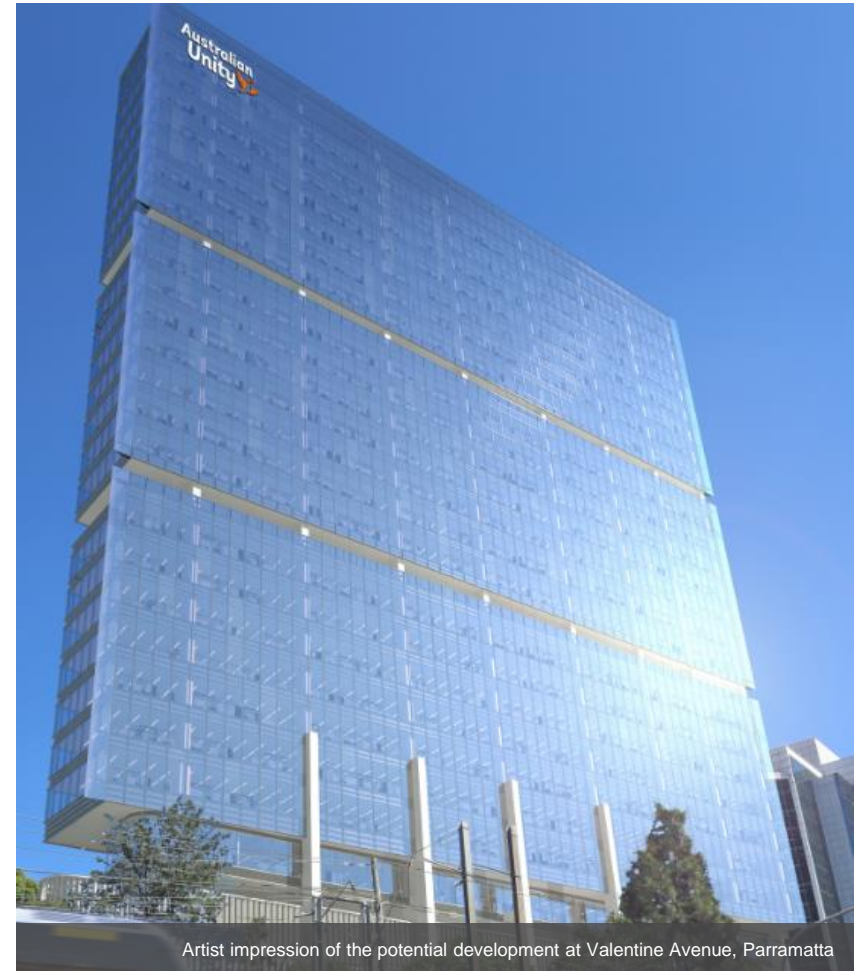
Activity in Parramatta

Development opportunity at 10 Valentine Ave, Parramatta (adjacent to existing building)

- Approval has been received for a new ~8,000 sqm commercial office development
- A site specific planning proposal has been submitted to increase the FSR, permitting a future approval for a ~25,000 sqm commercial office development
- Designed by Fitzpatrick + Partners after a design competition
- Actively engaging with potential tenants, subject to planning approval

Government ceases negotiations to acquire 32 Phillip St, Parramatta

- NSW Government advised that it will not proceed with the acquisition of 32 Phillip St, Parramatta
- Despite this, the NSW Government has committed to building a new arts and cultural precinct adjacent to 32 Phillip St, Parramatta



Artist impression of the potential development at Valentine Avenue, Parramatta

Market overview

5 Eden Park Drive, North Ryde, NSW

Market overview

Positive leasing activity is a feature of most Australian office markets

- Sydney and Melbourne continue to experience solid net absorption and falling vacancy rates, which is generating effective rental growth
- The associated metropolitan markets in Sydney and Melbourne are benefitting from these conditions
- Brisbane leasing conditions continue to improve, with falling vacancy and limited supply over the short-to-medium term
- There has been somewhat of a divergence between Canberra prime and secondary vacancy, with some upward pressure on prime grade rents
- A modest recovery in Adelaide leasing conditions is underway, with tangible signs of leasing enquiry underpinned by significant fiscal spending

Market	Vacancy June 2018	12 Month Change	12 Month Net Absorption (sqm)	Effective 12 Month Rental Growth
Adelaide	15.1%	↓	11,240	1.4%
Brisbane	14.4%	↓	5,746	0.5%
Canberra	13.5%	↑	(29,455)	4.1%
North Ryde	6.2%	↓	7,256	5.0%
Parramatta	4.6%	↑	19,678	15.8%
St Kilda Rd	8.2%	↓	(10,925)	12.8%
Sydney	4.5%	↓	62,361	12.5%
Melbourne	4.6%	↓	113,625	10.7%
Perth	20.9%	↓	32,494	1.8%
National	9.4%	↓	300,802	N/A

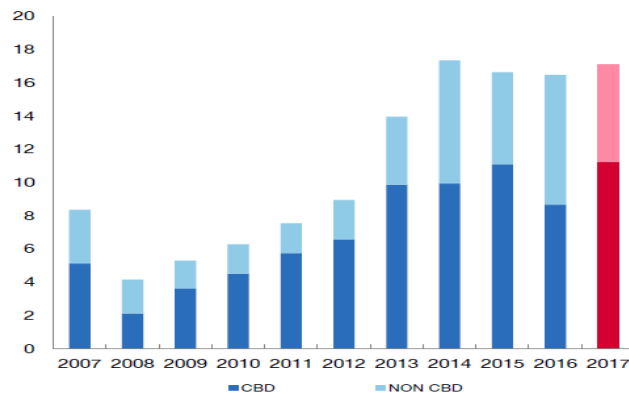
Source: JLL Research, data as at 30 June 2018

Market overview

Metropolitan markets are becoming a more prominent investment and tenant choice

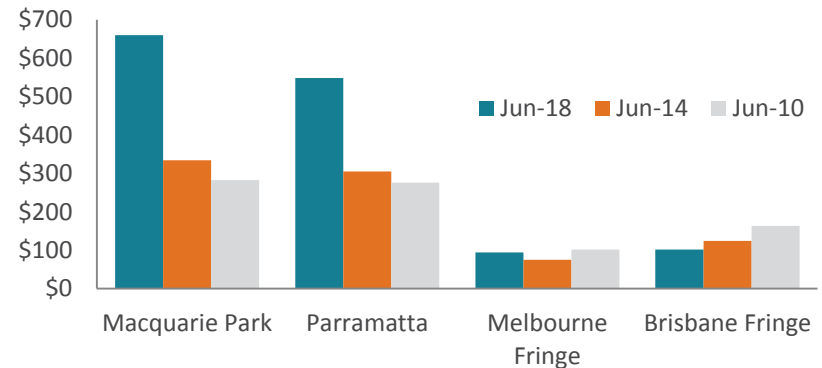
- Very high levels of office investment demand is causing buyers to look beyond CBD office markets
- The rental spread between CBD and metropolitan markets is encouraging tenants to explore decentralisation or 'hub and spoke' models
- The rental spread is also fuelling investment demand into some metropolitan office markets, given the expectation that rents will 'catch up' to the associated CBD market
- A significant rental spread is not universal between all CBD and metropolitan markets
- Significant transit infrastructure spending will enhance accessibility to some metropolitan office markets, further encouraging tenant demand

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



Source: Knight Frank Research
(X-axis refers to calendar years)

Metro vs CBD
Prime gross effective rent spread



Source: JLL Research, data as at 30 June 2018

Summary and outlook

10 Valentine Avenue, Parramatta, NSW

Outlook

AOF remains well positioned to deliver on its objectives

Guidance

- FY19 FFO guidance of 17.2 – 17.4 cpu¹
- FY19 distribution guidance of 15.8 cpu¹

Immediate focus

- Address current vacancy and pending lease expiry risk
- Where possible, take advantage of improving leasing conditions to grow fund earnings
- Further progress the development opportunity at 10 Valentine Avenue, Parramatta

Growth strategy

- Assess potential acquisitions which may complement the existing portfolio, remaining mindful of AOF's cost of capital and being disciplined in our approach
- Continue to assess value-add potential within the portfolio, including the development at 10 Valentine Ave, Parramatta, taking advantage of market opportunities as they arise



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



Appendices

241 Adelaide Street, Brisbane, QLD

Income statement

12 months to 30 June 2018	FY18 (\$'000)	FY17 (\$'000)	Change (\$'000)
Income Statement			
Rental income	53,375	44,009	9,366
Property expenses	(18,250)	(15,753)	(2,497)
Interest income	27	14	13
Net (losses)/gains on financial instruments held at fair value	(529)	1,176	(1,705)
Net fair value increment of investment properties	73,717	38,993	34,724
Total income net of property expenses	108,340	68,439	39,901
Expenses			
Responsible Entity fees	(3,287)	(2,478)	(809)
Borrowing costs	(6,705)	(4,420)	(2,285)
Other expenses	(1,055)	(904)	(151)
Total expenses, excluding property expenses	(11,047)	(7,802)	(3,245)
Profit attributable to unitholders	97,293	60,637	36,656

Reconciliation of statutory profit to Property Council FFO

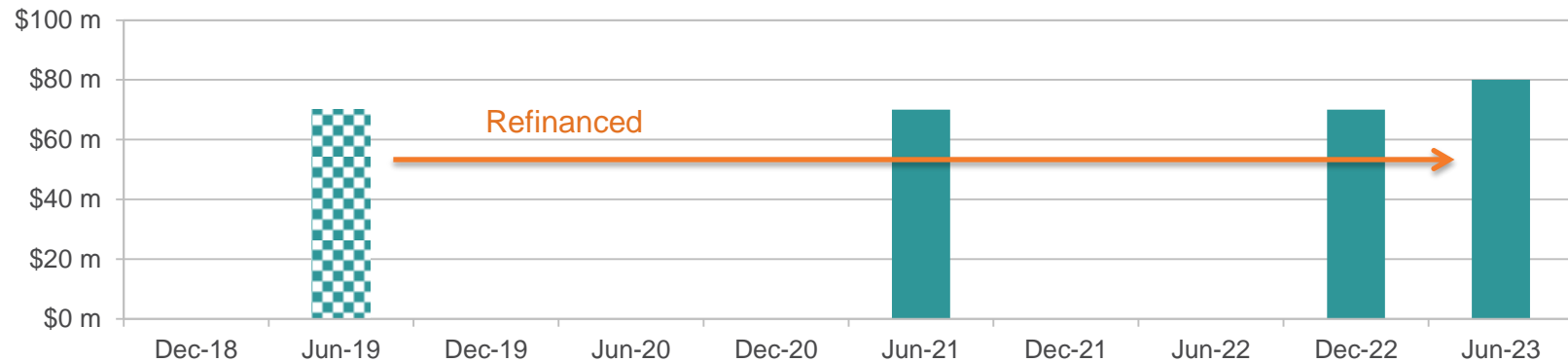
12 months to 30 June 2018	FY18 (\$'000)	FY17 (\$'000)	Change (\$'000)
Statutory Net Profit	97,293	60,637	36,656
Adjusted for:			
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	2,918	3,529	(611)
Net losses/(gains) on financial instruments held at fair value	529	(1,176)	1,705
Net fair value increment of investment properties	(73,717)	(38,993)	(34,724)
Funds From Operations	27,023	23,997	3,026
Retained Earnings	(2,498)	(2,941)	(443)
Distributions	24,525	21,056	3,469

Balance sheet

	30 June 2018 (\$'000)	30 June 2017 (\$'000)	Change (\$'000)
Assets			
Cash and cash equivalents	6,177	4,118	2,059
Receivables	820	432	388
Financial assets held at fair value	0	232	(232)
Other assets	586	361	225
Investment properties	635,550	441,067	194,483
Total Assets	643,133	446,210	196,923
Liabilities			
Distributions payable	6,350	5,334	1,016
Payables	4,402	4,332	70
Financial liabilities held at fair value	297	0	297
Borrowings	197,175	122,817	74,358
Total Liabilities	208,224	132,483	75,741
Net Assets	434,909	313,727	121,182
Number of units on issue (million)	162.8	140.4	22.4
Net Tangible Assets per unit	\$2.67	\$2.23	\$0.44
Gearing	30.2%	27.0%	3.2%

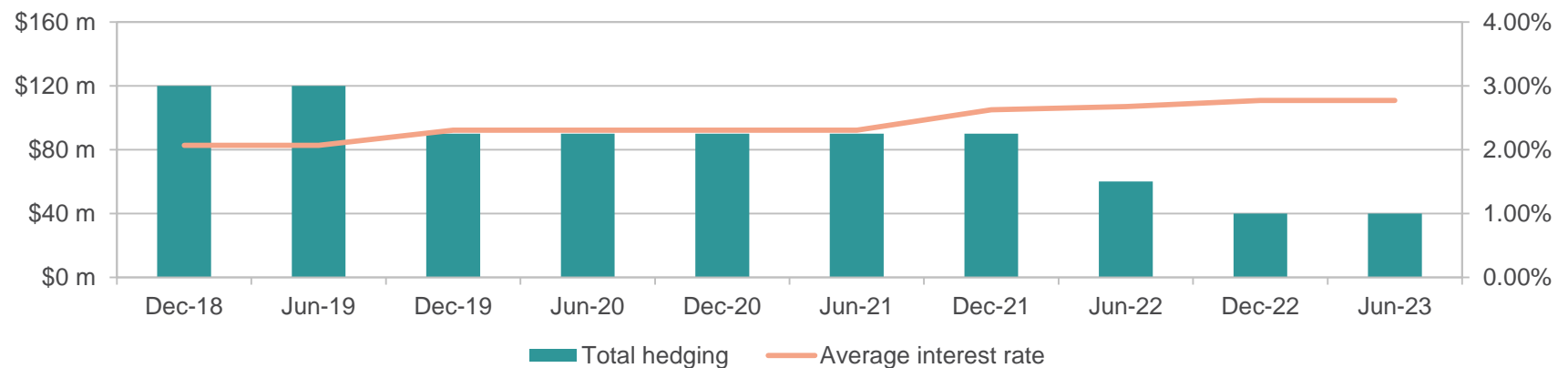
Capital management

Debt facility expiry profile¹



1. As at 30 June 2018 and adjusted to reflect the \$35 million paid on or before 8 August 2018 as part of the refinancing arrangement agreed in June 2018

Interest rate hedging & average hedged interest rate²



2. As at 30 June 2018 and adjusted to reflect the interest rate swap which was implemented on 12 July 2018

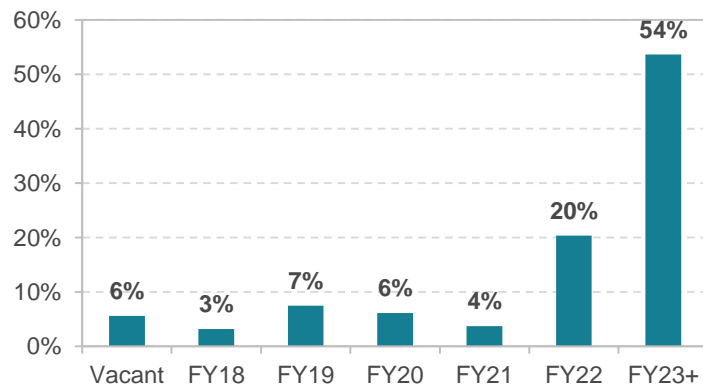
Key portfolio metrics

As at 30 June 2018

Key portfolio metrics

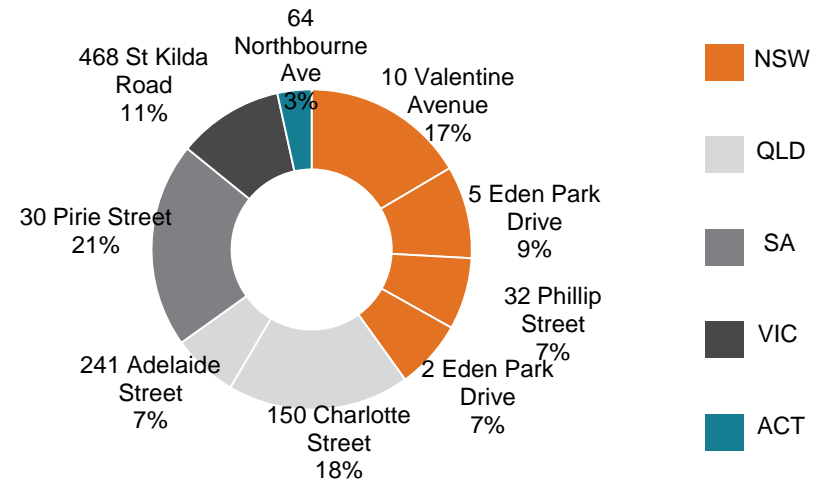
Number of properties	9
Occupancy ¹	95.0%
Portfolio Value	\$635.55m
Weighted Average Capitalisation Rate	6.5%
WALE ²	4.1 years
Net Lettable Area	107,647 sqm

Lease expiry profile¹

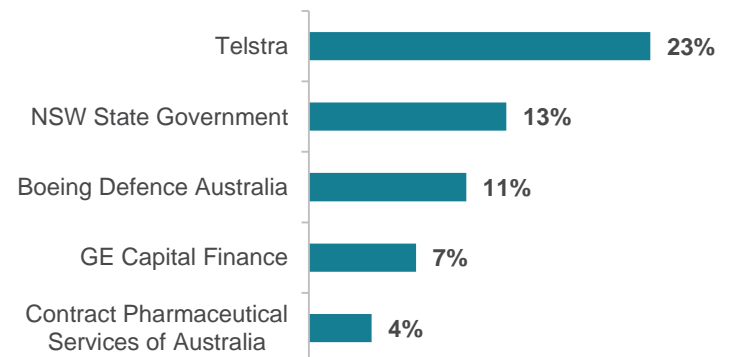


1. As at 30 June 2018, by Net Lettable Area
2. As at 30 June 2018 by book value
3. As at 30 June 2018, by Gross Property Income

Geographic diversification²



Top 5 tenants³



Investment portfolio

As at 30 June 2018

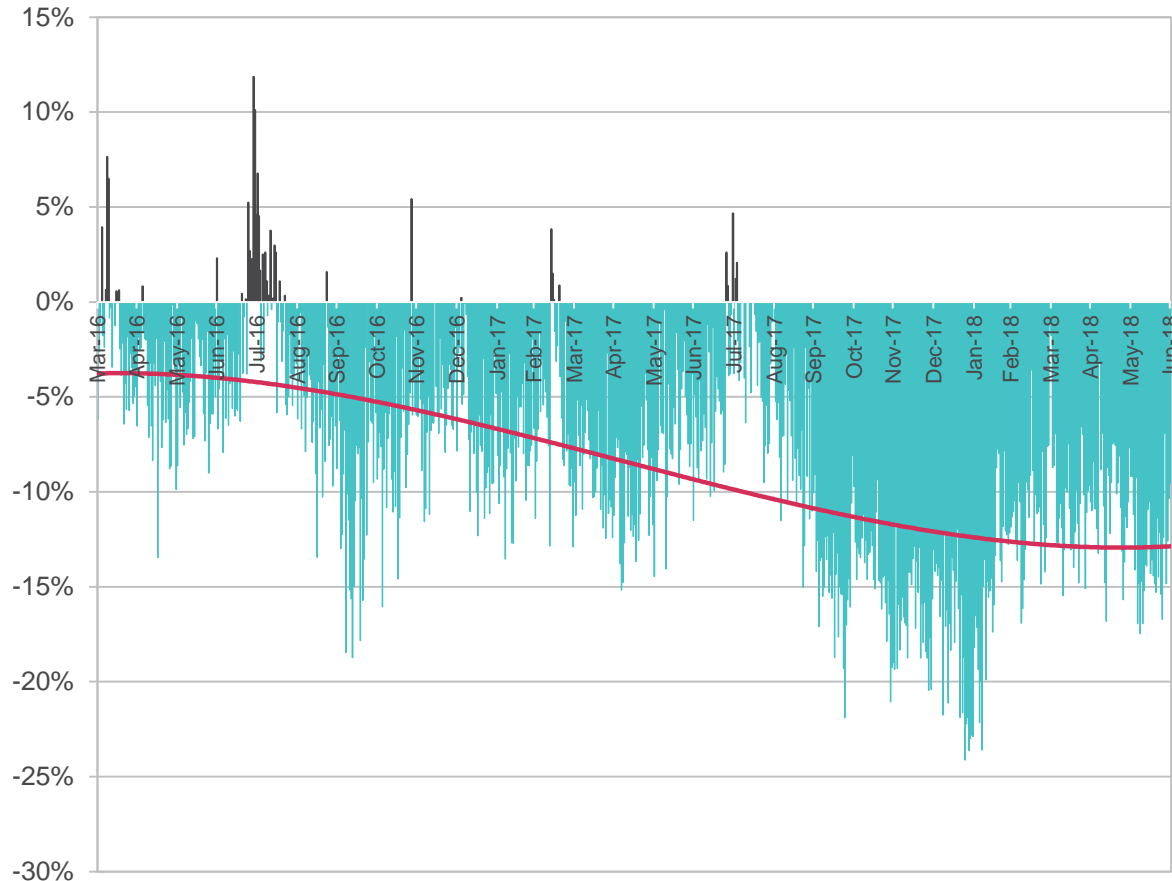
	Property	State	Book value	Cap rate	NLA (sqm)	WALE ¹ (years)	Occupancy (by NLA)
Single or Dominant Tenant Assets	30 Pirie St, Adelaide	SA	\$121.50m	7.50%	24,781	4.7	91.7%
	10 Valentine Ave, Parramatta	NSW	\$115.00m	6.25%	15,995	3.8	100.0%
	150 Charlotte St, Brisbane	QLD	\$105.75m	6.00%	11,011	4.7	100.0%
	5 Eden Park Dr, North Ryde	NSW	\$61.50m	6.25%	11,029	6.0	92.8%
	32 Phillip St, Parramatta	NSW	\$56.50m	6.25%	6,759	5.0	100.0%
Multi Tenant Assets	468 St Kilda Rd, Melbourne	VIC	\$71.25m	5.50%	11,180	3.7	95.4%
	2 Eden Park Dr, North Ryde	NSW	\$44.25m	6.50%	10,345	2.1	100.0%
	241 Adelaide St, Brisbane	QLD	\$37.50m	7.75%	10,128	2.2	85.9%
	64 Northbourne Ave, Canberra	ACT	\$22.30m	7.75%	6,419	3.3	91.8%
Total (T) / weighted average(A)			\$635.55m (T)	6.52% (A)	107,647 (T)	4.1 (A)	95.0% (A)

1. As at 30 June 2018, 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

Sustainability

Energy Increase

Daily Consumption Performance

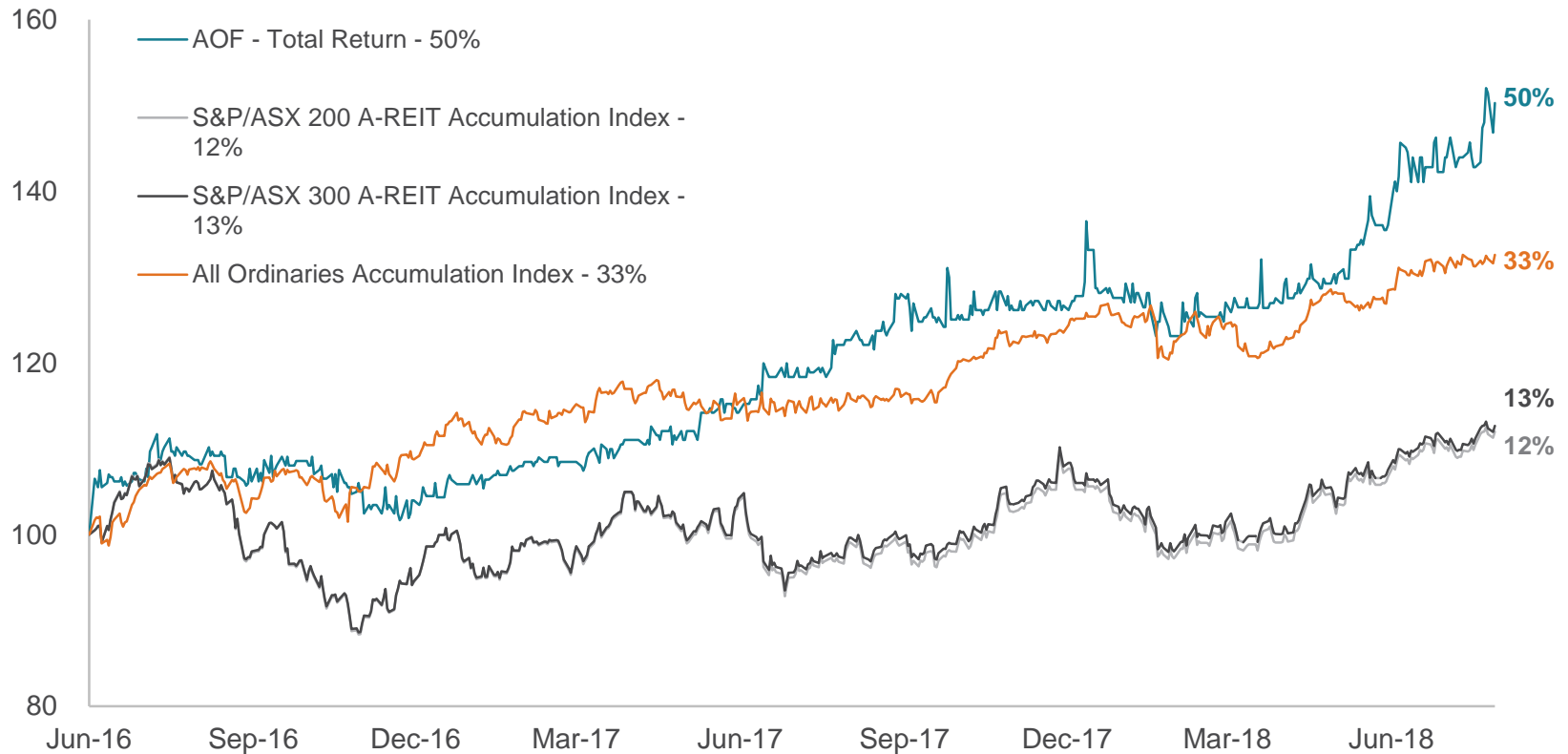


- Indicates energy savings compared to 'Baseline'
- 'Baseline' is the electricity consumption for 2014 adjusted for weather patterns and seasonality
- Indicates an average energy reduction of 13% across the portfolio, or a saving of ~1000 MWH since January 2016, which is the equivalent of ~1000 tonnes of CO²

Energy Saving

- Energy saving compared to Baseline
- Rolling average energy saving

Total shareholder return



Source: UBS, Company filings, Datastream, IRESS as at 14 August 2018

Australian Unity's portfolio as at 30 June 2018

Australian Unity Property		Commercial Property (incl AOF)	Healthcare Property	Social Infrastructure	Mortgages	Portfolio
Gross Assets		\$1.45b	\$1.51b	\$239m ¹	\$141m	\$3.34b
Net lettable area (sqm)		327,188	174,171	87,432 ²	n/a	588,791
Assets/loans		27	51	15 ³	18	111
Gross Income (Property/Interest) ⁴		\$127m	\$83m	\$1.86m ³	\$13m	\$225m
WALE / Loan maturity (yrs) ⁵		4.2	11.9	n/a	1.0	6.88
Occupancy		95.4%	98.7%	RVPF ³ 92.8%	n/a	96.59%
WACR ⁶ / Discount rate ⁷ / Interest rate ⁸		6.65%	6.54%	14.00% ⁷	7.71% ⁸	6.65%
Development pipeline/WIP		\$334m	\$476m	\$574m	\$113m/ \$170m WIP	\$1.67b
Capital Support	Debt (facility limit)	\$563m	\$740m	\$337m	n/a	\$1.64b
	Equity	\$961m	\$1,307m	\$128m	\$141m	\$2.54b

1. In addition to the \$1.1b Herston Quarter redevelopment

2. Portfolio net lettable area does not include social infrastructure development assets

3. Social infrastructure assets include: 2 Retirement Village Property Fund (RVPF), 6 Retirement Village Development Fund development assets and 7 development assets for Herston Quarter.

4. Gross Income for 12 months ending 30 June 2018 and includes gross property income and income from investments. Gross income figures for social infrastructure are reported for RVPF only as other assets are in development phase.

5. WALE is weighted average lease expiry for the Property Fund Management portfolio and is weighted by gross income. For Mortgages loan maturity is disclosed.

6. WACR is the weighted average cap rate for the Property Funds Management portfolio and is weighted by gross asset value

7. Discount rate denoted for RVPF properties within Social Infrastructure weighted by property value

8. Average return to investors as at 30 June 2018

Past performance is not a reliable indicator of future performance

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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